

**AN EXPLORATION OF ENTREPRENEURSHIP WITHIN  
ESTABLISHED FAMILY BUSINESSES IN GRAHAMSTOWN**

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## **Abstract**

Family businesses make up a large number of businesses in South Africa, although they are not often researched. Many of these family businesses are SME (Small and Medium Enterprises), however they contribute substantially to the local economy, as well as job creation. Despite their extensive presence there is a very poor success rate of family businesses. One of the reasons for their low success rate could be the seemingly increased conservative nature of family businesses over time. Thus, a look into entrepreneurial processes, which promote adaptation, innovation and learning, may give family businesses a competitive advantage. An Abbreviated Grounded Theory approach was used to explore the presence, if any, of entrepreneurial processes within established family businesses in Grahamstown. Two generations of family owners as well as a non-family employee across four local businesses were interviewed. The results show that all four business show signs of entrepreneurship within their business, these include: risk taking, creativity, active competition, opportunity grasping and change. Previous generations within the business also showed signs of learning new technology, in turn the new generations learnt from the experience that their parents have had in the businesses. The results show that family businesses are capable of change, adaptation and learning, thus it may enable consultants and future researchers to strengthen family businesses across generations.

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## **Preface**

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## **1. Introduction**

Large organisations have become the main focus of organisational research in modern society. Large and multi-national corporations are important organisational phenomena to study within their contexts as they contribute considerably to international and national economies (Morgan, 1997). However, this often overrides the importance of smaller firms (Neubauer & Lank, 1996). Small and Medium Enterprises (SME) constitute a large proportion of businesses in an international and national setting. Large corporations have been unable to keep up with unemployment rates within South Africa (Ntsika, 2002). Approximately 68.2 percent of people employed within the formal sector in South Africa have been employed by SMEs (Ntsika, 2002). This, in conjunction with the inability of the informal and government sectors to create sufficient employment opportunities, has led to increased focus and awareness of people starting their own enterprises in order to survive (Venter, 2003). The South African government has released various acts in order to promote and encourage SMEs within the country, such as the National Strategy for the Development and Promotion of Small Businesses in South Africa Act in 1995 (Friedrich & Isaacs, 2011, p.5).

Family businesses within South Africa are an extremely important part of SME employment creation and new venture creation. Some of the family businesses in South Africa have become large corporations, namely Pick \_n Pay, Anglo American, Anglovaal and Liberty Life (Venter, 2004). On the other hand, according to Maas (1999, p.3), approximately half (49.6 percent) of the South African family businesses are considered small businesses employing less than twenty people. The presence of family businesses internationally is estimated at being between 65 and 90 percent of the business terrain (Venter, 2004, p. 474). Within South Africa, family businesses constitute approximately 80% of all businesses (Venter, 2004, p. 475). This shows that small family businesses constitute a fair proportion of businesses in South Africa.

While family businesses are extremely active in the global, and local, economy they are often undervalued and under researched (Neubauer & Lank, 1998; Venter, 2004). The huge statistical representation of family businesses in the economy has been overlooked in the past, thus making family business research a fairly new field of study (Neubauer & Lank, 1998).

Family businesses are extremely complex for various reasons; one of which is that they are started by a founding member of the family, but they are often preserved and passed on to a successor within the family (Venter, 2003). The act of starting, and running, a family business is decidedly entrepreneurial in nature. In fact, some research in the entrepreneurial field of study recognises a link between entrepreneurship and family businesses (Hoy & Verser, 1994; Nordqvist & Melin, 2010; Venter, 2004; Zahra, Hayton & Salvato, 2004).

In relation to entrepreneurship, the ever-changing and uncertain economic climate has led to the creation of organisations that are interested in adapting to their environment and dealing with change flexibly. According to Prange (1999) "Organisations are reeling from discontinuities created by a growing level of globalization, heightened volatility, hyper-competition, demographic changes, and the explosion of knowledge" (p. 23). Thus, organisations are moving towards an economy that is based on the possession and acquisition of knowledge to give them the competitive edge (Holcomb, Ireland, Holmes & Hitt, 2009). This places increasing emphasis on the skills and knowledge that one has to offer in the workplace. However, in order to possess current, useful knowledge, one must have the ability to learn and adapt to situations. Consequently, there has been a shift in the corporate world towards organisations that are interested in consistent learning (Harrison & Leitch, 2005; Holcomb, et al, 2009). Learning in this instance can be defined as "the creation of useful meaning, individual or shared" (Starkey, 1996, p.1).

Not only have these global changes led to shifts in new organisational emphases, there has also been an increase in the entrepreneurial opportunities and entrepreneurial ventures (Pike, 2005). This trend towards being one's own boss and creating a business could be attributed partly to the popularisation of the idea that entrepreneurship can be learned and is not an innate trait (Pike, 2005). Many definitions have been proposed to identify singular entrepreneurs, beginning as early as 1934, and little has changed from this definition: "an agent who implements innovations, or new combinations, in a proactive manner" (Schumpeter 1934, as cited in Cooney, 2005, p. 227). Although there has been an increase in entrepreneurial ventures in recent years, many of these ventures disintegrate within the first five years of formation (Francis & Sandberg, 2000). The uncertainty and unstable conditions under which entrepreneurs work make the entrepreneurial field one of the most tumultuous areas to enter into. Thus, knowledge and learning are imperative to the success of new ventures. While the study of entrepreneurship has a multitude of implications in corporations,

it can also influence various socio-economic problems such as unemployment rates in South Africa.

According to a press release by Statistics South Africa (2011) regarding the current unemployment rate, unemployment stands at around 25.7 percent in the second quarter report. The Eastern Cape has risen from 27.9 percent in the second quarter of 2010 to 28.9 percent this year (Statistics South Africa, 2011, p.12). This high unemployment rate cannot be solely addressed by the government and also needs an extensive programme to encourage entrepreneurship and self-employment. According to Anton de Souza (as cited in South African Institute for Entrepreneurship, 2010):

*Entrepreneurial activity is considered a critical catalyst for the creation of sustainable new enterprises which in turn provide jobs. Particularly in South Africa, the importance of fostering entrepreneurial talent cannot be over-emphasised – with a high unemployment rate and the associated socio-economic problems, this country needs innovative people who can meaningfully contribute to the economy. (p. 1)*

This expresses the importance of understanding entrepreneurship and the processes that contribute to the survival of entrepreneurial businesses. Thus, research that is specifically focused on South African entrepreneurs and the skills needed for entrepreneurial success may have a positive effect on the Non-Profit Organisations (NPOs), Small and Medium Enterprises (SMEs), as well as larger, profit-driven organisations. Further research into the area of entrepreneurial success may help NPOs in terms of generating a comprehensive body of knowledge to assist in educational programme formation, small business assistance programmes or even government policy to create a more entrepreneur-friendly nation.

It is evident from the discussion above that both small family businesses and entrepreneurial SMEs play a large role in the South African economy as well as creating employment. Although there are studies that link these two areas of research they are few and far between (Hoy & Verser, 1994; Nordqvist & Melin, 2010; Venter, 2004; Zahra, et al, 2004). Moreover, few look at the South African context (Venter, 2004). Most family business research focuses on the succession process within cross-generational family businesses hoping to improve the survival rates of such businesses through the study of leadership succession (Beckhard & Dyer, 1983; Venter, Boshoff & Maas, 2003; Venter, 2004; Venter 2003). No research yet has considered the relationship between entrepreneurial processes and family business survival rates. This research is, therefore, an exploratory study that looks at entrepreneurial processes,

such as risk, proactive behaviour and innovation (Miller, 1983) within family businesses to discover to what extent, if any, these processes occur in family businesses. Thus, this research poses a unique look at two very important areas of research.

## **2. Literature Review**

The following literature review aims to provide an overview of the pertinent studies in relation to the research topic at hand. The following topics will be discussed in order to establish a foundation on which to build this research. The literature review will be divided into two main sections. Firstly family businesses will be defined and discussed in international and South African contexts. This will be followed by a review of entrepreneurship definitions and its effect on organisational structures. Lastly, a discussion of the literature that links entrepreneurship and family business will be reviewed.

### **2.1. Family Businesses**

#### ***2.1.1. Importance of Small Family Business research***

The combination of business objectives with social needs and influences from the family have made family businesses an extremely unique and complex area of study. As mentioned above, family businesses contribute immensely to the South African economy and job creation (Venter, 2004). Small and Medium Enterprises (SME) also contribute greatly to job creation within South Africa (Venter, 2004). While large corporations have been terminating employment contracts recently, SMEs have maintained employment growth (Ntsika, 2002). Thus, it is extremely important to study SMEs and not overlook them as insignificant within our economy.

SMEs are considered important within South Africa for various reasons, these include: SMEs have the ability to create and maintain employment opportunities that large corporations are failing to achieve, SMEs are able to offer on-the-job skill development and training that large organisations cannot, and SMEs play a vital role in empowering previously disadvantaged people within South Africa (Ntsika, 2002). Moreover, the increasing difference between Gross Domestic Product (GDP) contribution and employment creation within SMEs shows that SMEs are a more cost efficient way of producing jobs than larger corporations (Ntsika,

2002). In addition to this, SMEs have higher employment absorption than large corporations (Ntsika, 2002).

It is difficult, however to define SMEs. Ntsika Enterprise Promotion Agency in South Africa have different levels of SMEs, these range from survivalist enterprises which comprise of single person enterprises, to medium enterprises which have multiple employees and more complex management structures (Ntsika, 2002). While some SMEs are defined along monetary means, such as annual turnover or evaluation of assets (Venter, 2003) it is extremely difficult to use these methods without access to financial figures. Thus, SMEs will rather be defined along employee numbers and ownership lines. Small and Medium Enterprises will be known as: “one which is normally owner-managed and employs between five and 50 people” (White Paper on a National Strategy for the Development and Promotion of Small Business in South Africa, 1995, as cited by Venter, 2003, p.27).

A study conducted by Maas (1999) that researched 266 family businesses in South Africa found that 49.6 percent employed less than 20 people. A large proportion of family businesses are SMEs, showing that small family owned and/or run businesses can make a large difference in the South African employment rate and ultimately assist in the alleviation of poverty (Venter, 2004).

Estimates show that the proportion of family businesses are between 65 and 90 percent globally (Venter, 2004). Moreover, in a South African setting family businesses make up about 60 percent of businesses on the Johannesburg Stock Exchange and 80 percent of businesses nationally (Venter, 2004). These estimations are largely dependent on the definition of family businesses that is utilised (Neubauer & Lank, 1998). Take for example Shanker and Astrachan (1996) who demonstrated through their study of family businesses in the United States that statistics can vary greatly according to whether definitions were broad, middle or narrow. Broad definitions found that there were 20.3 million family firms in the United States of America, while according to the narrow definition there were only 4.1 million (Shanker & Astrachan, 1996). This study demonstrated the importance of definitions in research findings, especially when it came to family businesses.

### ***2.1.2. Definition of family businesses***

Family businesses are extremely difficult to define as they vary according to the extent of family involvement, ownership, management and succession (Neubauer & Lank, 1998;

Venter, 2004). Moreover, the family business does not have a consistent, agreed upon definition amongst consultants, academics and family business owners (Neubauer & Lank, 1998). Thus, the issue of defining family business is a much debated area within the literature (Neubauer & Lank, 1998; Venter, 2003; Venter, 2004). Firstly, in order to define family businesses, one should understand the meaning of family. Family in this context emphasizes laws and customs in the fulfilment of family members needs (Venter, 2004). Although this is a simplified definition, it will be sufficient to deal with the context in which this research exists. This definition of family acknowledges the social aspect of families, as well as a primary function of families which is to look after the needs of its members, these can range from emotional needs to financial needs (Venter, 2004).

Definitions of Family businesses can vary along multiple lines. According to Shanker and Astrachan (1996) family business definitions can be grouped into three main categories, namely: broad, middle and narrow. The broad and middle definitions do not take into account much involvement by the family members (Shanker & Astrachan, 1996). The narrow definition, on the other hand, acknowledges the intergenerational nature of family businesses and identifies action and participation by family members in the formation and maintenance of the business (Shanker & Astrachan, 1996). For the purpose of this research the family businesses needs to be established, thus it needs to either be in the process of handing over to the second generation, currently be in the second generation, or in a subsequent generation. Thus, the following definition put forward by Venter (2003) will be utilised. A family business is:

*One that is owned by members of the same family to shape and/or pursue the formal or implicit vision of the business, in which it is the intention of family members to hand the business over to the next generation, or which has already been handed over to a family member to manage and/or control it (Venter, 2003, p.17).*

Venter's (2002) definition encompasses the issue of family businesses being owned and managed by the same family, moreover that the businesses are, or intend to be in the future, inter-generational. However, it is difficult for one definition to succinctly define all that enters into the complex situation of a family firm. Thus, it is necessary to discuss the models that have been developed to assist in explaining and theorising about family businesses.

### ***2.1.3. Family Business models***

#### *2.1.3.1. Early Approaches*

The study of family businesses is a fairly new area of interest in research (Neubauer & Lank, 1998; Venter, 2003; Venter, 2004). The initial research on the topic made various assumptions that have led to many prejudices surrounding family businesses, even to this day (Venter, 2003; Venter, 2004). Articles as early as the 1960s and 1970s seemed to focus primarily on the negative aspects of family businesses, these included: nepotism, succession conflict, rivalry, and corruption within the business (Dickinson, 2000, p.6 as cited in Venter, 2003, p.41). The focus within early research also revolved around the individual and personality traits of entrepreneurship (Venter, 2004). This was restrictive as it did not take into account systemic and group dynamics which are so vital within the complex social and business environment of family businesses.

#### *2.1.3.2. The Dual Approach*

The next approach to family businesses research dealt with the family businesses as being two fundamentally different, yet interdependent systems (Venter, 2004). This was referred to as the dual systems approach and was developed by Tagiuri and Davis in the 1980s (Dickinson as cited in Venter, 2003). The dual systems approach, as the name suggests, explores two systems that are evident within family businesses, namely: the family unit and the business (Venter, 2004). Firstly, family refers to primarily social and emotionally focussed group of people in the personal environment (Venter, 2004). The term business, on the other hand, refers to a more rational and professional set of behaviours within the workplace (Venter, 2004). These two systems are forced to overlap in a family business environment, thus causing potential conflict (see figure 1).

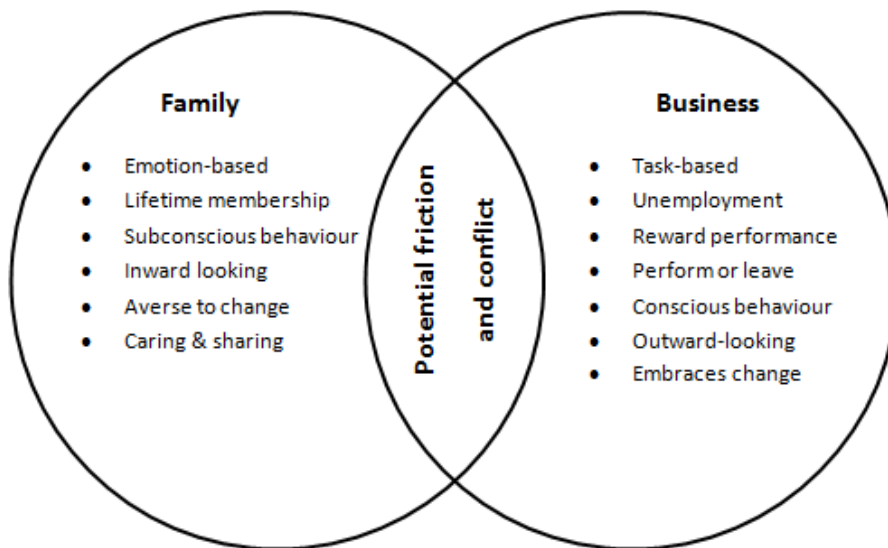


Figure 1: Overlapping systems (Venter 2003, p.45)

This theory has caused much debate surrounding family businesses as they are viewed as riddled with conflict and irrational behaviour in the workplace due to the mixture of social, emotional and irrational behaviour with professional and rational behaviour (Venter, 2004). In most non-family businesses the social aspect is attempted to be removed from the business, however with family businesses the social aspects are not only included, but they are also interdependent on the business aspects (Venter, 2004).

Although this theory begins to grasp the complexities of family businesses, it is naive to think that family businesses can only be viewed comprising of two systems. Moreover, the overlap of the business and family aspects is portrayed as entirely negative and conflicting. Many subsequent researchers have found an abundance of positive aspects within family businesses (Davis, 1983; Kets de Vries, 1993; Kuratko & Hodgetts, 1995).

### 2.1.3.3. *The three-circle model*

The dual system was further modified by Gersick, Davis, Colloim Hampton and Lansberg (1997) to incorporate additional aspects of family businesses. This model takes into account a third factor, that of ownership (Venter, 2003; Venter, 2004). Thus, the three factors that need to be studied according to this model are: the family, the business and ownership (figure 2).

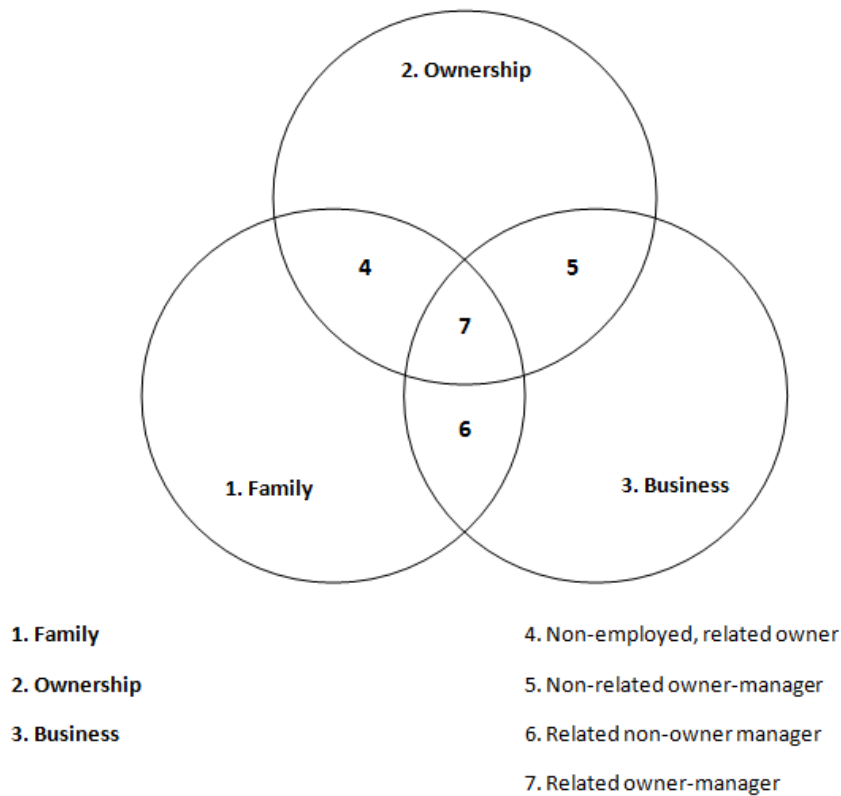


Figure 2: The three-circle model of family business (Gersick et al., 1997, p.6)

Furthermore, this theory stated that all three of these areas needed to be developed equally in order for the family business to survive (Venter, 2004). In other words, if there is conflict within the ownership sector of the businesses, such as succession conflict, then the entire business may suffer as a result. Thus, a three-dimensional developmental model of family businesses was developed (Venter, 2003; Venter, 2004). This developmental model allows one to track the progress of the business at any point in time according to three main dimensions (figure 3).

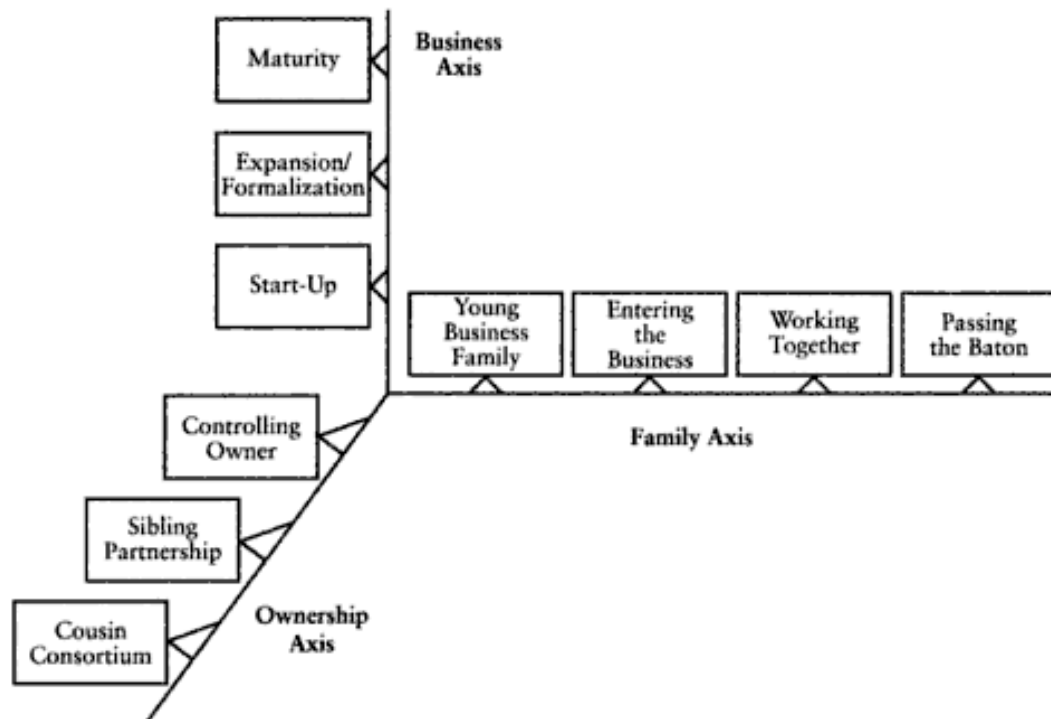


Figure 3: Three-dimensional developmental model of family businesses (Gersick et al., 1997, p.17)

Gersick et al. (1997) discusses the three dimensions along a continuum of development. Firstly the family axis moves from a young business family, to entering the business, to working together and finally to passing the baton onto the next generation (Gersick et al, 1997). This family axis is important in understanding what stage of development the family is currently in. A young family with toddlers will behave differently towards the business than an elderly family close to retirement will (Gersick et al, 1997). The Ownership axis ranges from a controlling owner, to a sibling partnership to a cousin consortium (Gersick et al, 1997). Different forms of ownership can be adopted for various reasons, such as expansion or succession into the next generation which forces the siblings to share ownership (Gersick et al, 1997). Lastly, the business aspect refers to the maturation of the business. The business moves from start-up, to expansion or formalisation, to maturity (Gersick et al, 1997). The age, or business stage, of the business will affect the structure and behaviour of the family toward the business. This is the most advanced theory of family businesses to date (Venter,

2003) and will be used in this research to estimate the stage each participating business was in when interviewed.

#### ***2.1.4. Family businesses versus non-family businesses***

Family businesses, as mentioned above, are an extremely unique and complex form of businesses. Moreover, they have a multitude of differences to non-family businesses. Many researchers have focussed on the differences between family and non-family businesses (Kets de Vries, 1993; Morris, Williams, Allen & Avila, 1997; Venter, 2003; Venter, 2004) in order to pinpoint exactly what makes family businesses unique.

The primary underlying difference between family and non-family businesses is that owners and employees of family businesses, especially those within the family, feel accountable to both the business and the family unit (Hall, Melin & Nordqvist, 2001; Miller, Brenton-Miller & Lester, 2007; Venter, 2003; Venter, 2004). According to Miller, Brenton-Miller and Lester (2007) family businesses have three priorities that may influence business decisions and behaviour, these are: 1) to assure the well-being of the family unit; 2) to provide succession opportunities and security for future generations; and 3) to preserve the values of the family (p.2). A study conducted to explore the effect of ownership on performance of CEOs in large corporations found that CEOs in family businesses had an extremely complex array of issues to deal with (Miller, Brenton-Miller & Lester, 2007). Not only were CEOs in family businesses concerned about their reputations if they were to fail, similar to their entrepreneurial counterparts, but they also had to consider the feelings and well-being of their family members (Miller, et al, 2007). CEOs who were not within family businesses, on the other hand, were more concerned with their personal performance and achievements in order to “climb the corporate ladder” (Miller, et al, 2007, p.6). This study, although it cannot be generalised to smaller organisations, shows that family businesses bring to the table a more complex situation than non-family businesses.

Family businesses have been stereotyped in the past as being riddled with nepotism, sibling rivalry and conflict (Venter, 2004). These phenomena may be true in certain cases however, it often under plays the positives that are unique to family businesses. According to Kuratko and Hodgetts (1995) family businesses may also have positive aspects that their non-family businesses opposition do not have. Family businesses have three traits that are positive to

their business and their communities, namely: preserving humanity in the workplace, focussing on long term views and an emphasis on quality (Davis, 1983). Family businesses are arguably more caring and understanding towards employees, family and non-family (Kuratko & Hodgetts, 1995). Moreover, they are more likely to focus on longer term goals and not merely year to year performance (Davis, 1983). And lastly, family businesses are known for their outstanding quality of products (Kuratko & Hodgetts, 1995).

Although there are many positive aspects of family businesses, there are also negatives that can impede performance. Some researchers have highlighted negatives about mixing family and business. Some of these negatives include: using business funds for personal means, avoiding risks, becoming stagnant through following traditions of previous generations, and generally conservative strategies (Hall, Melin & Nordqvist, 2001; Miller, et al, 2007). Morris et al. (1997) has composed a list of differences between family businesses and non-family businesses (Table 1).

<b>Family – Owned, Managed</b>	<b>Not Family controlled</b>
<ol style="list-style-type: none"> <li>1. Family Members in managerial positions have lifetime and personal stake in firm.</li> <li>2. Family members in managerial positions may be with firm for entire career.</li> <li>3. Family members have indefinite time horizon.</li> <li>4. Failure of the business has dramatic personal and career implications for family members, especially those in senior positions.</li> <li>5. Likelihood of family members in managerial positions being terminated is low.</li> <li>6. Personal gain results from a sense of pride in organisation’s growth, success, job creation, and family wealth creation.</li> <li>7. Organisational performance tends to</li> </ol>	<ol style="list-style-type: none"> <li>1. Manager’s interest in firm is limited more so to specifics of employment contract.</li> <li>2. Managers seldom remain with one firm for entire career.</li> <li>3. Managers have shorter time horizon.</li> <li>4. Failure of the business has relatively less personal impact on the manager.</li> <li>5. Likelihood (or perception of likelihood) of a manager being terminated or his/her position eliminated is greater.</li> <li>6. Personal gain results from advancement, promotion and increased compensation.</li> <li>7. Organisational performance tends to be less directly correlated with what a</li> </ol>

<p>be more informal correlated with managerial compensation.</p> <ol style="list-style-type: none"> <li>8. Decision making tends to be more centralized, although this may lessen across generations.</li> <li>9. Interval control systems tend to be more informal.</li> <li>10. Succession can be problematic and traumatic even if planned for; rivalries can arise among family members, while conflicts occur between the business head and heirs.</li> <li>11. Family member managers are accountable to self and family.</li> <li>12. Conflicts tend to further a dynamic pattern that is circular: a conflict within a family can impact on business decisions made at a much later date, which in turn influences future family dynamics.</li> <li>13. Non-family employees may perceive real limits to their upward mobility and personal opportunities within the firm.</li> <li>14. Family affairs can directly affect business affairs and vice versa.</li> </ol>	<p>particular manager earns.</p> <ol style="list-style-type: none"> <li>8. Decision making is often more participative and team-based.</li> <li>9. Internal control systems tend to be more formalised.</li> <li>10. Succession can involve conflict and compensation, but stockholders will monitor the process in an effort to ensure it is accomplished in a timely and orderly fashion.</li> <li>11. The manager is accountable to stockholders.</li> <li>12. Conflicts tend to follow a more linear pattern such that their impacts are more traceable over time and isolated.</li> <li>13. Employees are apt to have a greater sense of equal opportunity in terms of advancement and participation in decision making; this may produce more internal competition.</li> <li>14. While the personal lives of employees affect their job performance, the impact is likely to be more on the individual than the firm.</li> </ol>
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Table 1: Differences between family-owned and –managed businesses and non-family-controlled businesses (Morris et al, 1997, p.3)

The main differences that are important within this research are those that mention the restriction of risk, the stagnation of strategy and the conservative nature of family businesses over time (Hall, Melin & Nordqvist, 2001; Miller, et al, 2007). The high failure rate of family businesses is not necessarily due to changes in the market, but rather the inability of these unique and complex organisations to adapt and learn from

the environment. As Leon Danco from the Centre for Family Businesses in Ohio so eloquently said:

*Family businesses fail because they allow themselves to be destroyed, slowly but surely, by the inaction of their owner/managers. The businesses fail because, more often than not, these people never make the decisions needed to ensure the vitality of their companies in an ever-changing, ever more complex world (Danco, as cited in Kuratko & Hodgetts, 1995, p.529).*

Thus, this research aims to explore entrepreneurial processes within established family businesses in order to widen the research on this phenomenon.

## **2.2. Entrepreneurship**

### **2.2.1. Towards a Definition**

Entrepreneurship is a wide, interdisciplinary field of research. Although it has been studied for decades, beginning with the seminal writers such as Schumpeter (1934), it is still not uniformly defined. Many researchers have attempted to define entrepreneurship (Bartol & Martin, 1998; Bateman & Snell, 1996; Dollinger, 1995; Gibb, 1996; Hirsch & Peters, 1998; Timmons, 1989; Venter 2004); however, Gartner (1990) has warned against a definition that is too narrow and does not encompass the varying aspects inherent in entrepreneurial activity. According to various authors the field of entrepreneurship study remains fragmented (Carland, et al, 1984; Gartner, 1990; Gartner, 2001; Rwigema, 2004; Shane & Venkataraman, 2000). This disunity regarding the definition has become one of the largest hindering factors within the entrepreneurship literature.

According to Gartner (1990) there has been little agreement on the definition of entrepreneurship. It was for this reason that Gartner (1990) attempted to unify some of the widespread definitions and identify the common themes within these definitions using empirical research. Gartner (1990) used three rounds of questionnaires among an average of 44 participants to conduct his research. In the first questionnaire Gartner (1990) asked key groups of individuals, namely: academics and business leaders, to propose their definitions of entrepreneurship. From this initial round of surveys 90 attributes were extracted and were sent back to the participants for feedback. The participants were asked to rank the importance

of each of these attributes. Some of the participants changed their mind about their original definitions, while others saw attributes that they had not initially listed (Gartner, 1990). Thus the second round allowed for a widened and more in-depth account of the initial definition of entrepreneurship. The second batch of questionnaires was analysed using factor analysis which aimed to categorise the 90 attributes into common themes (Gartner, 1990). Thus, from the large group of attributes, eight categories were acknowledged: The entrepreneur, innovation, organisation creation, creating value, profit versus non-profit, growth, uniqueness, and the owner manager (Gartner, 1990, p. 16).

The final stage of the research asked the participants to rank the importance of the abovementioned themes. It was found that the eight themes could be grouped into two different groups, the first being the ones that were seen as imperative to defining entrepreneurship (the entrepreneur, innovation, organisation creation and creating value). The second consisted of lower ranking themes (for-profit versus non-profit, growth, uniqueness and the owner-manager), of which the profit theme was the lowest ranking group by far (Gartner, 1990).

It can also be noted that these eight themes display two main views of entrepreneurship, namely the characteristics of entrepreneurship and the outcomes of entrepreneurship (Gartner, 1990). The characteristics of entrepreneurship seem to comprise the higher ranked group of the eight themes. The characteristics of entrepreneurship group are the components that comprise an entrepreneurial venture, such as the entrepreneur, innovation, growth and uniqueness (Gartner, 1990). While the second group, the outcomes of entrepreneurship, cover the lower-ranked themes such as for-profit or non-profit, owner-manager and creating value (Gartner, 1990). The second group focussed on the product of the entrepreneurial venture, or the gain that was received as a result of the venture.

Gartner's (1990) research is a seminal piece of literature within entrepreneurial research. Although quantitative techniques were used, the research was inductive in nature. It identified the thoughts and definitions of participants and used those as a starting point for the research. It attempted to find a much-needed common ground within entrepreneurial research. However, this research can be seen as outdated as it was conducted over twenty years ago when the economic climate was extremely different. Moreover, the sample initially attempted to draw data from three types of individuals: academics, top business people and politicians; however the politicians did not respond (Gartner, 1990). As a result of

this the question must be posed: Does this study show a wide enough view of definitions of entrepreneurship? The use of entrepreneurs or politicians could have resulted in different data being collected. Moreover, this was an American study that could not accurately depict the South African context.

Gartner's (1990) study, due to its inductive nature and extensive feedback and analytic process, is one of the most comprehensive studies to date regarding entrepreneurial definitions. It is for this reason that the top ranking themes from the Gartner (1990) study will be used to aid and structure the definitional part of the literature discussion. The headings that will be explored further are the following: The entrepreneur, innovation, organisation creation and creating value.

### ***2.2.2. The Entrepreneur***

The initial focus of entrepreneurship research was around the individual entrepreneur. The idea of entrepreneurship was originally viewed as an individual, personal achievement (Cooney, 2005). This idea of the "lone hero" (Cooney, 2005, p.226) of entrepreneurial success was prominent in much early research. Many definitions have been proposed to identify singular entrepreneurs, beginning with Schumpeter as early as 1934, and little has changed from this definition: "an agent who implements innovations, or new combinations, in a proactive manner" (Schumpeter 1934, as cited in Cooney 2005, p. 227). The idea of 'The Entrepreneur' is slowly adapting and changing form to suit the economic climate of today's society which is riddled with change.

Although there has been an increase in entrepreneurial ventures in recent years, many of these ventures disintegrate within the first five years of formation (Francis & Sandberg, 2000). The uncertainty and unstable conditions under which entrepreneurs work make the entrepreneurial field one of the most tumultuous areas to enter into. Individuals have sought partners to assist them financially and emotionally with the start-up and maintenance of entrepreneurial businesses (Francis & Sandberg, 2000). This has resulted in the emergence of the entrepreneurial teams within business.

There was a marked shift in common thought and academic interest towards the acknowledgement of entrepreneurial teams in the founding and success of new ventures (Reich, 1987). Although there has been much research geared toward the study of

entrepreneurial teams (Cooney, 2005; Kamm & Nurick, 1993; Kamm, Shuman, Seeger & Nurick, 1990), this is still a largely unrecognised and under researched area of entrepreneurship literature (Francis & Sandberg, 2000; Reich, 2001). Many entrepreneurial businesses nowadays are being opened not by a singular entrepreneur, but rather by a team of entrepreneurs. Thus, this age-old notion of entrepreneurship being a lone activity is slowly being broadened to include various forms of teams that start and maintain businesses. These teams can include friends or family members (Francis & Sandberg, 2000). It is often shown that people may use existing friendships or family memberships as a means to recruit and select new employees in the workplace (Francis & Sandberg, 2000).

### ***2.2.3. Innovation***

Throughout entrepreneurial literature there has been reference to innovation. As mentioned above Schumpeter 1934 (as cited in Lumpkin & Dess, 1996) has recognised innovation as a key attribute to the entrepreneurial process. In 1942 Schumpeter went on to discuss the “creative destruction” process which resulted in “new combinations” or innovation taking place (Schumpeter 1942 as cited in Lumpkin & Dess, 1996, p.142). Thus, Schumpeter (1942 as cited in Lumpkin & Dess, 1996) acknowledges the double edge sword of innovation, that of creation and destruction. According to Lumpkin and Dess (1996) innovation is “a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative process that may result in new products, services, or technological processes” (p. 142).

Many researchers use the term innovation to define entrepreneurship. Carland, et al (1984) attempted to distinguish between entrepreneurial ventures and small business ventures. They define a small business owner as “an individual who establishes and manages a business for the principal purpose of furthering personal goals” (Carland, et al, 1984, p. 358). Furthermore, a small business owner ties the business to his/her own personal needs and family needs; they view the business as an extension of their personality (Carland, et al, 1984). On the other hand, an entrepreneur establishes a business primarily for expansion or growth and profit (Carland, et al, 1984). According to Carland, et al (1984), the entrepreneur is characterised by “innovative behaviour and will employ strategic management practices in the business” (p. 358). Thus, one of the main distinguishing factors used by Carland, et al (1984) is that an entrepreneur is innovative and uses strategy to plan ahead for increased

profit and growth. This innovation is needed from the formation of an organisation and throughout the maintenance and growth phases.

#### ***2.2.4. Organisation creation***

The term entrepreneur or entrepreneurship is often associated with new venture creation. The fact that organisation creation emerged from Gartner's (1990) research shows that generally people link entrepreneurship with the starting of a new business. There are extensive definitions that highlight the organisation creation factor as being extremely important, if not an instrumental characteristic, in entrepreneurship. For example Bartol and Martin (1998, p.672) define entrepreneurship as the "creation of a new enterprise". This shows that they place much importance on entrepreneurship creating a new business. Bateman and Snell (1996, p. 208) also define entrepreneurship as "the act of forming a new organisation of value". Moreover, they acknowledge the need for that business to have value of some kind.

Not all small business start-ups are entrepreneurial in nature (Carland, et al, 1984). Moreover, new businesses creation is not the only form of entrepreneurship. There has been a move in the entrepreneurship literature to accommodate various forms of entrepreneurship, including, but not limited to new businesses creation (Gibb, 1996). For example, corporate entrepreneurship has been studied which looks at entrepreneurial activities within large, established corporations (Rwigema, 2004).

As Kirby (2003, p. 10) so eloquently put it: "entrepreneurship is not about the act of founding or owning a (usually small) business, but about the pattern of behaviour or set of behavioural characteristics". Thus, entrepreneurship as a study encompasses various forms of behavioural characteristics whether they occur in a small new business start-up, or within a large corporation. Another distinguishing factor that separates entrepreneurial behaviour from general management tendencies is that of creating value within organisations (Bateman & Snell, 1996).

#### ***2.2.5. Creating value***

Throughout the discussion thus far on entrepreneurship there has been a common theme, namely: value creation. Through innovative behaviour entrepreneurs are able to create value

within organisations at different levels and stages of development in organisations (Kirby, 2003). According to Stoner, Freeman and Gilbert (1995, p.160) “entrepreneurship is the seemingly discontinuous process of combining resources to produce new goods or services”. Hisrich and Peters (1998, p. 9) describe entrepreneurship as “the process of creating something new with value”. Thus, the idea of creating new goods or services is important, but one must note that these goods or services need to provide sufficient value to the organisation (Kirby, 2003).

According to Lumpkin and Dess (1996) the central characteristic of entrepreneurship is “new entry” (p. 136). New entry refers to initiating a new enterprise, whether this is a new business or innovation within an existing business (Lumpkin & Dess, 1996). They also acknowledge the idea of corporate entrepreneurship which is innovation within large, established businesses (Lumpkin & Dess, 1996). Thus, new entry is not limited to new venture creation, but refers to any endeavour which adds value to a new or existing business.

### 2.3. Definition of entrepreneurship

There are many definitions of entrepreneurship, each placing focus on a different characteristic or aspect of entrepreneurial behaviour (Table 2). Taking into consideration all of the components of entrepreneurship, and the definitions within these components, a working definition of entrepreneurship needs to be established for the purpose of this research.

Summary table of entrepreneurship definitions	
Author	Entrepreneurial Attributes
Schumpeter 1934 (as cited in Cooney, 2005)	Innovation, proactiveness
Schumpeter 1942 (as cited in Lumpkin & Dess, 1996)	“creative destruction” (p. 142)
Miller, 1983	Product market innovation, risky ventures, proactive, competitive
Carland, et al, 1984	Innovation, strategic planning, growth, profit

<b>Stoner, Freeman &amp; Gilbert, 1995</b>	Production of new goods/services
<b>Bateman &amp; Snell, 1996, p 627</b>	New organisation, value
<b>Lumpkin &amp; Dess, 1996</b>	New entry, Innovation, risk taking, autonomy, proactive, competitive aggressiveness
<b>Bartol &amp; Martin, 1998, p. 208</b>	New enterprise
<b>Hisrich &amp; Peters, 1998</b>	Creating something new, value
<b>Kirby, 2003</b>	Initiative, autonomy, innovation, risk taking, ability to see opportunity and take action
<b>Rwigema, 2004</b>	New business, innovation, opportunity, growth, complex and unstable environment

Table 2: Summary of Entrepreneurship definitions

A definition proposed by Rwigema (2004) who is a South African author poses one of the best definitions provided thus far. Rwigema (2004) defines entrepreneurship as: “the process of conceptualising, organising, launching and – through innovation – nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment” (p.6). This definition was chosen as one of the best from the vast landscape of entrepreneurship literature as it encompasses many aspects of entrepreneurship. It recognises the need for innovation and entrepreneurial practices even after the initial business phase. However, there are certain components of entrepreneurship that are lacking in this definition, such as proactive and risky behaviour. Risk could be classified as debatable aspect of entrepreneurship, with some theorists such as Brockhaus (1980) believing that all businesses incorporate risk and that it is not specific to entrepreneurial businesses. Risk, in this study, however, will be seen as an important aspect of entrepreneurship because established family businesses are theorised to be conservative in nature and avoid risk taking (Hall, Melin & Nordqvist, 2001; Miller, et al, 2007). Moreover, Brockhaus (1980) shows similarities between managers and entrepreneurs in their amounts of risk taking. He uses this to refute risk as a sign of entrepreneurship, however effective managers might incorporate entrepreneurial activities in their management, thus this might prove that the managers utilise aspects of entrepreneurial processes instead of using this information to deny risk as a form

of entrepreneurship. Thus, for the purposes of this study risk will be seen as an important part of the definition of entrepreneurship.

The statement of a venture being “high growth” (Rwigema, 2004, p. 6) restricts entrepreneurial activities to large amounts of growth, while a lot of the entrepreneurship literature does not specify the amount of growth, merely that there should be growth present. This could be a limitation in the acknowledgement of entrepreneurial activities within smaller businesses which are restricted by small markets and cannot attain high levels of growth.

In addition to the reference to growth, Rwigema (2004) also stated that a business is in a “complex, unstable environment” (p. 6). This may also pose a restriction as to the environments in which entrepreneurial businesses occur. Although certain research claims that entrepreneurial activity will occur within certain environments, the statement of a specific environment may result in a restriction of research, rather than exploratory research into a variety of environments.

For the purpose of this research, a definition needs to be used that acknowledges all the previous literature. The failure to find a holistic definition has led the researcher to create her own. Thus, from this point forward entrepreneurship will be defined as:

*Entrepreneurship is the process of new entry, either by creating a new business or by creating new value in an existing business, whereby individuals or groups use innovative, proactive or perceived risky behaviour to seize opportunities within their environments to promote growth or to give organisations the competitive advantage.*

The definition given above uses characteristics highlighted by previous literature. The above definition accentuates a few main points that have been discussed, a summary of these are:

- A central characteristic of entrepreneurship is new entry (Lumpkin & Dess, 1996), whether it be within new business ventures or within existing organisations
- Entrepreneurship aims to create value within organisations (Bateman & Snell, 1996; Hisrich & Peters, 1998)
- Entrepreneurship is no longer an individual activity and can be performed by groups of people (Cooney, 2005).

- Innovation, proactive and risky behaviours are key to entrepreneurial firms (Miller, 1983)
- Entrepreneurs strive for growth within their businesses, this is a distinguishing factor between small businesses owners and entrepreneurs (Carland, et al, 1984)
- Competitive aggressiveness, or behaving in a competitive manner is important to entrepreneurs (Lumpkin & Dess, 1996).

The definition of entrepreneurship is important in the discussion of entrepreneurial organisations. However, in order to fully understand organisations and the effect that entrepreneurial behaviour has within organisations, it is necessary to explore the structure of organisations and factors affecting this organisational design.

#### **2.4. Factors affecting organisational structure**

Organisations are difficult to discuss in general, some kind of distinction needs to be made between different types of organisations in order to develop a more in-depth analysis of specific organisations and their contexts. It is evident from previous literature within organisation theory that various types of organisations have been identified (Miller, 1983; Mintzberg, 1973; Morgan, 1997). The acknowledgement and study of different types of organisations in different situations stems from the Contingency Theory.

The Contingency Theory states that there are many different ways to structure an effective organisation (Mintzberg, 1979). Various studies showed that the design and structure of an effective organisation could differ depending on the environment or situation of the business (Mintzberg, 1983; Morgan, 1997). In other words, there is no one effective way to design an organisation, the environment is full of contingency factors that affect the structure of organisations (Mintzberg, 1979). This means that there can be various forms or types of organisations that generally function well in certain environments. For example, in a dynamic, ever-changing environment such as the technology industry, organisations that are flexible and quick to respond to changing factors within the environment are more likely to survive (Morgan, 1997). Whereas a larger corporation in a more stable environment has a greater need for structure, bureaucracy and hierarchy, such as a government department (Mintzberg, 1979).

According to Mintzberg (1983) organisational structures can be affected by various factors. These factors are copious in organisational literature; however four main groups of factors will be discussed: Age and size of organisations, nature of environment, technical systems and power (Mintzberg, 1979; Mintzberg, 1983). Additional factors will be added as they have been shown to have influence over organisations. They are organisational culture (Schein, 2004) and adaptation and learning in organisations (Daft, 2005; Haeckel, 1999).

#### ***2.4.1. Age and Size***

There are many studies that link the structures or design of organisations to their age and size. There are various assumptions that will be discussed to establish what trends there are in the literature between organisational design and the age or size of the business. Firstly, according to Mintzberg (1983), there is an assumption that the “older the organisation, the more formalised the behaviour” (p.123). This is based on the assumption that the older the organisation is, the more the work is repeated the more entrenched those behaviours become (Mintzberg, 1983). This can be a positive or a negative attribute in an organisation depending on the situation. For example, in a stable environment where the output is standardized and will not change, formalised behaviour is effective as it will produce a consistent standard and similar output of products. However, if the market calls for adaptation or customisation in the product, the business needs to adapt to this change and not continue to act in this routine manner.

Another assumption regarding age and size of organisations is that the larger the organisation the more intricate its structure becomes (Mintzberg, 1983). This is a fairly logical assumption which states that once a business grows, there is more need for job specialisation and differentiation and that there is a need for technical and administrative support, hence making the structure more elaborate (Mintzberg, 1983). This is logical as there will need to be more than one person performing the same job in larger organisations and there will need to be more departments performing specialised tasks to keep the organisation running. As Mintzberg (1983) so eloquently stated, “increased size gives greater homogeneity of work within units but greater diversity between units” (p.124). Moreover, the diversity between departments and the larger unit size within organisations will call for more administrative procedures in order to keep inter-departmental communication and administration

functioning (Mintzberg, 1983). In larger firms there is a difference between those who plan and analyse, those who manage, and those who do the work (Mintzberg, 1983, p.125).

Not only does the size of the organisation affect the complex nature of the organisational structure, it also affects the organisational behaviour. According to Mintzberg (1983) larger organisations also have more formalised behaviour. Similar to the age affecting the formalised behaviour, the size of the organisation can also have a similar effect. The large organisation formalises behaviour that it sees often, as opposed to the aged organisation that formalises what it has seen in the past (Mintzberg, 1983). Large organisations formalise behaviours that they see in the past, in order to make behaviours more predictable so that management finds it easier to manage the large number of employees. On the converse side of this argument, it could be assumed that in smaller organisations behaviours are generally not very standardised. This could be because there is more direct control from the manager and a smaller workforce, thus each incident could be dealt with on an individual level.

Another interesting argument regarding the topic of age and size in influencing organisations is posed by Stinchcombe (1965) and relates to the industry age and its affect on organisational structure. Stinchcombe (1965) conducted a study of modern businesses in different industries and compared them according to the age or era of their respective industries. For example industries such as agriculture and retail stores were grouped under the pre-industrial era (Mintzberg, 1983). These pre-industrial industries in modern society generally tended to rely on the assistance of un-paid family labour in the businesses (Stinchcombe, 1965). Whereas modern businesses that were in the industries of the industrial revolution era generally relied more on paid clerks and showed more bureaucratic tendencies (Mintzberg, 1983). Thus, the age of the industry itself and the methods that were characteristic of its time may affect the structure of modern businesses in the same industry today.

#### ***2.4.2. Environment***

Organisations are faced with not only variations in the age or size of the organisation, but also external circumstances that can influence the structure of organisations and the effectiveness of this structure. The notion that environments can affect organisations is known as the open systems approach, which was pioneered by a biologist, Ludwig von

Bertalanffy (Morgan, 1997). The core assumption of open systems theory is that organisations, like organisms, need to react and adapt to their environments or surroundings in order to survive (Morgan, 1997). In other words, if an organisation is going to survive it needs to look at the organisation within the larger picture, taking into account the resources, the external surroundings, government and supply issues, the process within the organisation as well as the final product (Morgan, 1997). This idea of open systems (input, transformation and output) was developed by Bertalanffy as General Systems Theory in order to transcend disciplines and apply this idea to various natural and social sciences (Morgan, 1997).

For the purpose of this discussion the idea of open systems theory will be adopted. Organisations do not function within a vacuum, thus the environmental effects on organisations are important to take into consideration. In modern society the often rapidly changing environments make it necessary for organisations to be aware of these changes and to adapt to them (see the section on adaptation below). The environment will be more formally defined as “the aggregate of surrounding things, conditions, or influences” (Dictionary.com, 2011). Mintzberg (1983) identified four main continuums on which environments can be compared, these are: stable to dynamic, simple to complex, integrated markets to diversified markets, and munificent to hostile (p. 136). Firstly, the stability of the environment can be determined by the consistency of products or services that are expected (Mintzberg, 1983). While dynamic environments are characterized by ever-changing needs or demands by customers. The more dynamic the environment, the less predictable the customers’ needs (Mintzberg, 1983).

Secondly, environments can range from simple to complex. Simple environments generally use less technology and are simple to comprehend and produce (Mintzberg, 1983). Complex environments, on the other hand, refer to products that can only be produced using a variety of knowledge or technical skill. Mintzberg (1983) differentiates between complex products that are difficult to conceptualise and complex products, such as cars, that can be broken down into smaller, more manageable components. The latter would fall into a simple environment because even unskilled workers could construct a car if it is put forward in a step-by-step approach that is “comprehensible” (Mintzberg, 1983, p. 136).

Market diversity refers to the number of clients, products and geographical locations that an organisation deals with (Mintzberg, 1983). For example, a diamond mine may sell one commodity to one client (this would be an integrated market environment), while a diamond

cutter and manufacturer may market its products to a range of retail outlets across the world (this would be a diversified market environment). The degree of market diversity will affect the structure of the organisation in terms of the variety and diversification of jobs and services that an organisation performs (Mintzberg, 1983).

Lastly, the hostility of the environment refers to the degree of competition, the availability of resources and the relationship with government and other external bodies that may influence its businesses, such as unions or ecological groups (Mintzberg, 1983). According to Mintzberg (1983) the hostile environments are also generally dynamic in nature.

Mintzberg (1979) makes various assumptions regarding the environmental factors and their affect on organisational structure. For example, the more complex an environment, the less centralised its structure will be. The decentralisation of organisations enables other employees to make decisions and react quickly to changes or customizations in products. The complexity of the environment also refers to changes in technology (Mintzberg, 1979). Some industries that rely heavily on technology will have to adapt often to changes in the environments as technology is changing rapidly in modern society.

Complexity and its affect on organisational structure is often confused with dynamism of environments (Mintzberg, 1983). The more dynamic the organisation the more organic the structure will be, whereas the more complex the environment the less centralised the structure. Mintzberg (1983) uses the example of a dress maker compared to a surgeon. The dress maker easily understands the environment, however cannot predict the colour or style of the outfit, thus the environment is simple but dynamic. While the surgeon spends years trying to learn and perfect techniques that will enable him/her to perform his/her job, however will not perform surgery without having a good idea of what the outcome will be. Thus, the surgeon's environment is complex but stable. Note that dynamic environments have more of an effect on organisational structures than its inverse, stable environments (Mintzberg, 1983). Dynamic environments will push the structure of an organisation towards organic structure despite size or other factors, while a stable environment usually does not override other factors (Mintzberg, 1983). According to Mintzberg (1983) there are structural tendencies for all combinations of environments (see Table 3).

	<b>Stable</b>	<b>Dynamic</b>
<b>Complex</b>	Decentralised Bureaucratic (Standardization of skills)	Decentralised Organic (Mutual Adjustment)
<b>Simple</b>	Centralised Bureaucratic (Standardization of work process)	Centralised Organic (Direct supervision)

Table 3: Affect of environmental factors on organisational design. Table adapted from Mintzberg (1979, p.286)

In relation to this research it is assumed that organisations will fall into the simple and dynamic category. The tasks that are performed in small businesses within small towns, as is characteristic of the participants in Grahamstown, are generally simple as they are easy to comprehend and do not need vast amounts of varied knowledge to perform tasks or produce products. Moreover they are situated within a dynamic environment because even though the town is small, there is still the presence of competition which creates a dynamic aspect within the environment. Thus, most businesses that will be studied in this research will fall within the centralised organic structure that has direct supervision from a strong manager or owner figure.

#### **2.4.3. Technical systems**

The term *technology* has been defined and redefined for decades. This term can refer to multiple objects, systems or even individual knowledge. Hunt (1972) differentiated between technology, which is a very broad term that does not have a fixed definition, and technical systems. Mintzberg (1983) defines a technical system, as “the instruments used in the operating core to transform the inputs into outputs” (p. 128). Hunt (1972) further distinguished three attributes of the technical system in an organisation; these were the flexibility of the technical system, the complexity of the technical system and the complexity

of the technology itself. Mintzberg (1979; 1983) tried to avoid the broad term of technology and rather discussed the expertise and knowledge needed in an organisation, or as Hunt (1972) described it as the complexity of the technology, under the term “complexity” which has been discussed above.

Thus, the two factors left to be discussed regarding technical systems are the flexibility of the technical systems and the complexity of the technical systems (Mintzberg, 1979). The flexibility of the technical system refers to how much choice and autonomy the instruments used by the operating core allow the workers (Mintzberg, 1979). For example, an assembly line does not pause or stop to suit the employees working on it, they have to ensure that they fit into the timing of the machinery. Thus assembly line productions would be referred to by Mintzberg (1979) as inflexible. On the other hand, the complexity of the technical systems within an organisation refer to the ease at which the instruments can be operated (Mintzberg, 1979). For example, a motor vehicle is a complex instrument, however most people can operate them without knowing anything about the mechanics behind motor vehicles. Thus, motor vehicles would not be seen as complex technical systems.

#### **2.4.4. Power**

Additionally, an organisation can be affected by power, which can change its structure and functioning. According to Mintzberg (1979) if an organisation has an external control or power, it tends to have centralised control and a formalised structure. For example, a government organisation that has to abide strictly by standardised government protocols and procedures is often bureaucratic, has a formalised structure and highly centralised through hierarchical structures (Mintzberg, 1979). This could also be true of multinational corporations or umbrella corporations that have smaller corporations under them, because of the need to constantly report to an external power, there may be an increased need for centralisation and formalisation of structure.

With regard to this research, small businesses usually have a strong strategic apex, very little middle management and a small operating core that answer directly to the strategic apex (Mintzberg, 1983). This simple structure will be discussed in detail below (Types of Organisations), but is generally known for having a strong, charismatic leader that retains much of the power within the organisation.

#### **2.4.5. Organisational Culture**

Lastly, a factor that has been identified in recent studies as having a substantial impact on an organisation's structure and functioning is the organisational culture of a business. Schein (2004, p. 17) defines Organisational culture as:

*a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.*

Schein (2004) described organisational culture as a deeply entrenched set of behaviours, norms and values that are held by people within an organisation. This culture informs decisions, adds social structure to organisations and is extremely difficult to study or change. Organisational culture can either be one of flexibility and adaptation which promotes learning and experimentation, or it can be one of rigidity and stagnation (Schein, 2004). Thus, in modern organisations it is important to be aware of the underlying assumptions and values that inform decisions and behaviours, as these can often hinder an organisation's ability to change and adapt to its environment.

#### **2.4.6. Organisational Adaptation and Learning**

Organisations are becoming increasingly interested in promoting continuous learning within their businesses. The complex and changing environment of the 21<sup>st</sup> century can only be dealt with through adaptation and creating a learning organisation (Daft, 2005). It is for this reason that many established corporations attempt to re-create the flexible and adaptive organisations that are usually found in the entrepreneurial phases of establishment. The entrepreneurial research on adaptation and learning within new enterprises is very limited. Therefore, it is necessary to look at various theories on adaptive enterprises in order to lay a foundation on which to build further entrepreneurial research. Two authors, namely Daft (2005) and Haeckel (1999) will be discussed in order to clarify the issue of adaptation in organisations.

Learning occurs on a day-to-day level, even if one is not aware of it. Learning is the “change in behaviour or performance that occurs as a result of experience” (Daft, 2005, p.599). In other words, every living creature lives and learns by making sense of their environment, acting, based on this sensed information, and then evaluating their action to see if the desired outcomes were obtained (Daft, 2005). The adaptive learning cycle illustrates this cycle of learning (diagram 1). The diagram shows three distinct phases that occur in the learning process across all living organisms: action, feedback and synthesis.

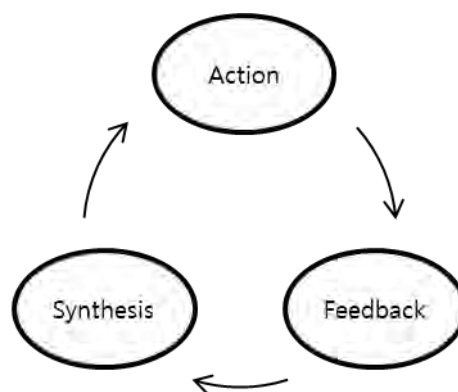


Diagram 1: Adaptive learning cycle, from Daft (2005, p.599)

The basic premise of this diagram is that one senses their environments and acts accordingly (one can also sense while acting). A human senses by reading, observing or listening (Daft, 2005). One then obtains results or feedback based on their actions. Feedback can either be negative or positive (Daft, 2005). By assessing the feedback one decides whether the effects were positive or negative, thus learning from the situation and choosing to change one’s action in the next cycle. For example, if a child burns himself on a candle, he will learn not to touch the candle the second time or to be more cautious when around fire. Although Daft (2005) places great importance on negative feedback resulting in learning, one must not disregard the importance of learning from one’s successes as well as failures.

Haeckel (1999) has a slightly different view on the adaptive learning cycle (diagram 2). He emphasises the process of sensing and interpreting data in the surrounding environment. There is a need for people to separate the “meaningful signals from the noise” (Haeckel, 1999, p. 76). Once the signals are interpreted and the meaningful ones are extracted from the array of unimportant ones, then one would decide how to act. This falls into the responding

category. For example, a dog has extremely acute hearing; however it would extract the noise of the owner whistling to summon it from the surrounding meaningless sounds. Once the dog hears this it will act as it has been taught to act, usually by going to the owner. This example encompasses all the steps of Haeckel's (1999) adaptive learning loop from sensing to action. Another important aspect of this loop is that one learns from the outcome of the action. For example, if the owner positively reinforces the behaviour of the dog then it will be more likely to act in a similar way again the next time and it could even learn to respond faster due to the positive feedback.

These theories may sound relatively abstract, but they have numerous applications in the working environment. In learning organisations this adaptation process occurs every day at various levels. Leaders try to evaluate outcomes of certain organisational and environmental actions to see what can be learnt from those situations. Thus, learning organisations realise the importance of allowing experimentation and risk-taking as the feedback from these actions can be valuable in the learning process (Daft, 2005). Learning leaders realise that by merely repeating the same actions will not lead to the learning and changing necessary to fit into the turbulent environment of today's world.

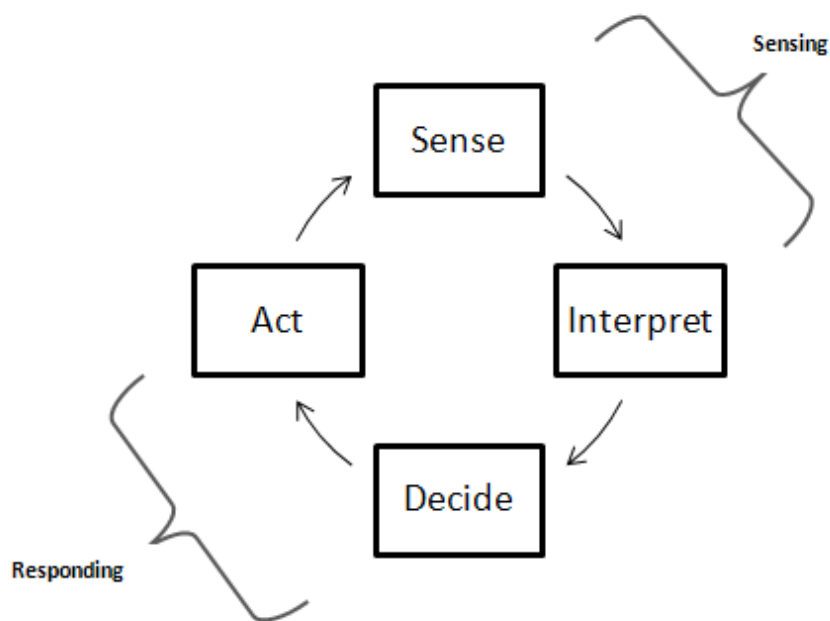


Diagram 2: Adaptation Loop, from Haeckel, 1999, p. 76

According to Haeckel (1999) an important and unique trait of humans with regard to adaptive learning that is not evident in other creatures is that they are able not only to adapt within the context to bring about change, but can also change the context itself. In other words, people who are innovative and see the broader picture can use seemingly unrelated “noise” or data to adjust and re-define their context. This has many implications in business, especially entrepreneurial ventures. Entrepreneurial leaders need to be aware of their environment and their surroundings in order to be successful in their ventures. Due to the experimental nature of new venture creation, in which there are no set procedures or systems to begin with, it is imperative that entrepreneurs are ready to adapt and change their approaches if need be.

Another trait of a learning organisation with regard to adaptation that is important is the speed at which the organisation circles these adaptive loops (Haeckel, 1999). With more practice and conscious effort on the organisation’s side, they could increase the speed with which they learn and adapt. All successful learning organisations have a common attribute, “they transform apparent noise into meaning faster than apparent noise comes at them” (Lloyd, as cited in Haeckel, 1999, p.77). Apparent noise in this context refers to sense data that may have meaning for organisations if it is re-contextualised or utilised in an innovative way. In other words, businesses need to learn to translate information from the environment that may be useful in the future, before the impacts of the environment engulf them. Thus, entrepreneurs need to stay one step ahead by always being aware of their environment. In the entrepreneurial context, however, this can prove to be extremely difficult.

Entrepreneurs often have to make decisions without all the facts, or sense data. Although their learning may have similarities to other types of learning, their process of action and learning is unique.

#### ***2.4.7. Entrepreneurial Learning***

Learning could also be viewed as a way for entrepreneurs to “generate knowledge which serves to reduce uncertainty” (Starkey, 1996, p.1). In most cases the object of learning is to reduce uncertainty, however entrepreneurial businesses are often riddled with uncertainty and unpredictability (Holcomb, et al, 2009). This has led to further research about the unique processes that are evident in entrepreneurial learning, which is mainly thought to be learning through experiences. Holcomb, Ireland, Holmes and Hitt (2009) have also argued that

entrepreneurs often learn through two main means, namely: experiential learning and vicarious or observational learning. Experiential learning creates new knowledge through learning from experience (Holcomb, et al, 2009), such as portrayed in the adaptive learning loops (Daft, 2005; Haeckel, 1999). In other words, through either positive or negative experiences that the entrepreneurs have themselves, they adapt and learn. The second type of learning is vicarious learning, which is learning through modelling the actions of others (Holcomb, et al, 2009). A possible third type of knowledge creation is that of assimilating written knowledge into one's memory, such as books, journals, articles and so forth (Holcomb, et al, 2009).

There are also other processes that are arguably important to the entrepreneurial learning and decision making processes, such as heuristics (Holcomb, et al, 2009). This process allows entrepreneurs to deal with situations which lack complete and comprehensive data, which are commonly encountered by entrepreneurs, thus enabling them to simplify complex situations and make decisions in uncertain situations. Heuristics allows entrepreneurs to make decisions and learn in situations that do not have complete sense data to inform their decisions (Holcomb, et al, 2009). In other words –“people learn to associate cues probabilistically to different outcomes of interest” (Holcomb, et al, 2009). A well-known example is a doctor who learns to diagnose patients' illnesses by looking at a set of symptoms. He/she may not have all the information at hand, but he/she learns to associate an outcome (diagnosing the illness) with a set of cues (the patient's symptoms).

According to Holcomb, Ireland, Holmes & Hitt (2009, p. 168) entrepreneurial learning is defined as:

*the process by which people acquire new knowledge from direct experience and from observing the behaviours, actions, and consequences of others; assimilate new knowledge using heuristics to confront discrepancies that are common with information acquired in uncertain contexts; and organize assimilated knowledge by linking it to pre-existing structures.*

Thus, heuristics has important implications for further research on entrepreneurial learning and decision making. The research regarding entrepreneurial learning and decision-making processes is sparse and there is dire need for further study on the subject (Harrison & Leitch, 2005; Holcomb, et al, 2009, Kamm & Nurick, 1993).

The factors discussed above influence entrepreneurship because they are all integral parts of modern businesses. Age and size of organisations affect the structure of the organisation and can influence the extent to which the business shows signs of entrepreneurship. The environment that an organisation is in can determine the speed at which it needs to adapt to its surroundings (Mintzberg, 1979). The technical systems of organisations can open opportunities for businesses to evolve and change, however some businesses can also be crippled by technological factors. Power within organisations can work for the progress of the business or could work against progress, the underlying and informal power structures can work to undermine owners and managers within businesses (Morgan, 1997). This can undermine change initiatives that may attempt to be implemented. The organisational culture is an underestimated influence in businesses (Schein, 2004). The culture can change, but with great difficulty and over a long time, this could have an impact on the entrepreneurial processes within the businesses. Lastly, the learning and adaptation needs to be taken into consideration because organisations need to be open to learning new ways of doing things and adapting to changing markets.

In South Africa all of these factors need to be taken into consideration when discussing entrepreneurship because they are all interlinked. In South Africa additional considerations, such as the diverse demographics of the country, as well as the local economy in which the business is situated, need to be factored into the discussion of entrepreneurship.

## **2.5. Types of Organisations and Entrepreneurship**

All organisations are unique, which makes the generalisation of theories and assumptions extremely difficult. However, finding common traits that organisations share can assist researchers in finding more accurate results that can be applied to specific types of organisations. Mintzberg has written seminal texts from as early as 1973 about different “modes” or types of firms (p.44). Mintzberg (1973) identified three main types of organisations, namely: The entrepreneurial mode, the adaptive mode and the planning mode. These three organisational types were expanded upon by Miller in 1983 who conducted empirical research using the three main “modes” of organisations theorised by Mintzberg (1973) and linked them to entrepreneurship.

Miller (1983) aimed to establish a link between organisation types and entrepreneurial activities. He identified three main characteristics of entrepreneurship that he aimed to look for within different types of firm, these were: proactive behaviour, risk taking and innovation (Miller, 1983). These three characteristics were used to identify if there was entrepreneurial behaviour within organisations.

Moreover, Miller (1983) distinguished between three types of organisations, namely: the simple firm, the adaptive firm and the planning firm. Miller (1983) used Mintzberg's (1973, 1979) differentiation of organisations to develop findings that specifically pertained to a particular type of organisation. This resulted in research that was applicable to different organisational contexts. Miller (1983) aimed to establish what the main determinants of entrepreneurship were within firms as a whole, as opposed to individual actors within organisations. This differed from previous literature which looked mainly at personality and actions of individual entrepreneurs (Miller, 1983). Miller's (1983) findings showed that there were differences in influences of entrepreneurship across the different modes of firms. Thus, the following is a discussion of Mintzberg's (1973) original theory regarding the modes of organisations and the empirical findings that Miller published in 1983. Focus will be given to the Simple Firm as it discusses structure and entrepreneurship of Small and Medium Enterprises (SMEs) which are the focal area of this research.

### ***2.5.1. The Simple Firm or Entrepreneurial Mode***

The first type of organisation was known as the "Entrepreneurial Mode" by Mintzberg (1973, p. 44). It was defined by Mintzberg (1973) as an organisation, whether new or established, that was run by an individual entrepreneur with a strong, often charismatic personality. This mode of organisation was the quintessential entrepreneurial business. The Entrepreneurial Firm however does not necessarily refer to only entrepreneurial organisations, but can be any organisation that meets the criteria, thus it will rather be referred to as the Simple Firm (Mintzberg, 1979).

The Simple Structure places its emphasis on the strategic apex or the uppermost echelon of leadership within the organisation (Mintzberg, 1983). Generally there is direct supervision between the strategic apex, which is usually composed of one owner-manager, and his operating core or lower level employees (Mintzberg, 1983). As mentioned above there is

usually a strong leader in the strategic apex of the organisation. There is very little or no middle management, technostructure or support staff (Mintzberg, 1983). The leader usually has wide control over his employees; communication is done informally between the leader and his staff. There is little or no middle management which makes communication fairly easy and informal. It is for this reason that Simple Structures are somewhat organic as they do not rely on strict rules, regulations and hierarchy (Mintzberg, 1983).

The Simple firm is generally a small enterprise (Miller, 1983; Mintzberg, 1973; Mintzberg, 1979) in a homogenous environment and is susceptible to threat by competitors (Miller, 1983). The threat by competitors does make the Simple Firms' environment fairly dynamic; however it is simple as the environment is homogenous (Mintzberg, 1979). Thus, the Simple firm falls into the simple/dynamic quadrant of Mintzberg's (1979) environmental table (Table 2). Simple Firms are therefore characterised by centralised organic structures and use direct supervision to manage the organisation. Most Small and Medium Enterprises (SME) fall into this category, unless their environment is extremely turbulent, such as the electronic industry.

Miller (1983) posed hypotheses about Simple Firms and entrepreneurial behaviour within these firms. Based on his assumptions, the most important and influential aspect of Simple Firms was the leadership. He placed emphasis on the leader of the organisation and identified three main areas that the leader would influence the organisation, these were: the leader's personality, power or locus of control, and the information that the leader accumulates about the market or environment (Miller, 1983). Miller (1983) found that he was accurate in his assumption; leadership was the variable that correlated the most with entrepreneurship in Simple Firms. He found that in this instance, the more centralised the leadership the more entrepreneurial the firms were. Moreover, there was a positive correlation between the leader of the organisation –scanning” the market and gathering market information, and entrepreneurship (Miller, 1983). This information allowed the organisation to have an –aggressive competitive” strategy against competitors (Miller, 1983, p. 783).

In fact, Miller (1983) stated that very little else mattered in his research of Simple Firms. Within simple firms the most important influence on entrepreneurial activity is the leader (Miller, 1983). According to Miller (1983) in the case of simple firms –entrepreneurship requires an entrepreneur” (p. 782). He found that organisations that were in stable environments have adopted organic structures, while others in dynamic environments

remained conservative (Miller, 1983). It must be noted that these businesses although they showed signs of disregard for their environmental surroundings, they may not be successful or survive. Moreover, although increased centralisation could in theory enable entrepreneurial behaviour, this is not a prerequisite for entrepreneurship. In other words, although there may be a correlation, if a leader has centralised power but behaves adversely towards innovation and risk then entrepreneurship will not occur. Thus, it is important to take into account environmental factors and tendencies of leaders toward entrepreneurial behaviour in order to establish the presence and degree of entrepreneurship in SMEs.

## **2.6. Entrepreneurship and Family Businesses: An Organisational Culture perspective**

There is limited research that encompasses both family businesses and the notion of entrepreneurship (Dyer & Handler, 1994; Hoy & Verser, 1994; Zahra, et al, 2004). Most research is extremely negative about family businesses, focussing on their inability to innovate, change and adapt (Hall, et al, 2011; Miller, et al, 2007). This research intends to explore entrepreneurship, not as a business start-up, but rather as a form of innovation, proactiveness, competition and risk taking (Miller, 1983). Organisational structures and culture are vital in the study of organisations as one should specify the type of organisation in order to achieve a more specific description of the businesses at hand. Thus, the following is a discussion of aspects of previous literature that have been discussed above and are pertinent to this research, such as SME and family businesses. Moreover, the organisational structures (Mintzberg, 1983) and entrepreneurial behaviour within specific types of organisational structures (Miller, 1983) will be discussed. This will be combined using Hofstede's (1991) model of organisational culture and Zahra, et al (2004) empirical research into organisational culture and entrepreneurship.

In relation to family businesses, Zahra, et al (2004) conducted empirical research that tested the relationship between organisational culture and entrepreneurship in family versus non-family businesses. Hofstede's (1991) four dimensions of organisational culture, namely: individual versus group cultural orientation, external versus internal cultural orientation, assumptions concerning centralised versus decentralised control, and strategic versus financial cultural orientations, were used to hypothesise about organisational culture.

### ***2.6.1. Individual versus group orientation***

Zahra, et al (2004) found that Hofstede's (1991) dimensions of culture could be used to hypothesise about entrepreneurship within family and non-family businesses. Zahra, et al (2004) found that the individual versus group dimension had a curvilinear relationship with entrepreneurship within family businesses. There was an inverted-U shaped correlation between individualism and entrepreneurship within family businesses. In other words, extreme cases of either individualism or group orientation would stifle entrepreneurship; however a moderate amount of individual or group behaviour would be most effective in creating an entrepreneurial environment (Zahra, et al, 2004). Thus, there needs to be a group atmosphere of cooperation and trust; however there needs to be a strong leader within the organisation who can promote entrepreneurial behaviour (Zahra, et al, 2004). This notion is somewhat congruent with the above literature relating to organisations and entrepreneurship. Simple firms, which are representative of SME which this study is focussed on, need a strong, charismatic leader in order for entrepreneurship to be implemented (Miller, 1983). Moreover, family businesses are characterised by strong, paternalistic leadership (Venter, 2004). Thus, the notion of strong leadership is necessary in SME family businesses for entrepreneurial behaviour, but this should be used in conjunction with group cooperation and trust.

### ***2.6.2. Internal versus External locus of control***

Secondly, Zahra, et al (2004) discussed the notion of locus of control. This refers to whether the power within the organisation was seen as internal or external (Hofstede, 1991). A strong internal locus of control can be beneficial in family businesses; however according to Zahra, et al (2004) a family business can be stifled over time if they do not look externally. Thus, they have found a correlation between entrepreneurial activities and external locus of control.

Although this research can be beneficial to some family businesses, one needs to be careful not to generalise to organisations to which the study may not apply. For example, young family businesses may not need an external locus of control as they have not yet become stagnant. Moreover, if there is a strong, innovative leader and large amounts of intellectual

capital within the organisation then it may not be necessary to adopt an external locus of control. Not only is the age of the organisation important, but the size needs to be considered as well. According to Miller (1983) different types of organisations have displayed entrepreneurship in different ways and circumstances. For example, Simple Firms rely almost entirely on the leader of the organisation (Miller, 1983). However, Mintzberg (1983) made it clear in his theories of Simple Firms that leaders need to take advice from external advisors, even if it is in an informal manner in order to gain information to bring into the organisation.

### ***2.6.3. Centralisation versus Decentralisation***

Some research has shown that decentralised family organisations have more chance of being entrepreneurial in nature (Zahra, et al, 2004). Although this may be the case in certain situations, Miller (1983) has discovered that some organisations, such as Simple Firms, need strong, centralised leadership to implement entrepreneurship. Miller's (1983) research highlighted the importance of the leader within Simple Firms as leadership was the variable that correlated most with entrepreneurship. Thus, while some types of organisations, such as larger, more organic organisations need decentralised control, Simple Firms actually thrive under strong leadership. Simple Firms are often extremely small and informal, thus one manager can effectively control the organisation with little or no hierarchy (Mintzberg, 1983).

### ***2.6.4. Long-term versus Short-term time orientation***

In terms of time frames that are adopted in family businesses: "Cultures that favour patient investments in long-term but risky activities are more likely to support entrepreneurship" (Zahra, et al, 2004, p. 367). Thus, Zahra, et al (2004) hypothesised that family businesses that focussed on short term financial controls were less likely to be entrepreneurial. While strategic and long term plans were seen to promote entrepreneurial and proactive behaviour (Zahra, et al, 2004).

Research relating to Simple Firms, or SMEs, argues that strategy in smaller organisations happens in bursts and not necessarily as a planned, long-term event (Miller, 1983; Mintzberg, 1979). Smaller organisations find it difficult to devote time to strategic planning as their organisational structures do not account for analytic departments (Mintzberg, 1983).

## **2.7. Conclusion**

Family businesses are extremely complex as a singular phenomenon. However, to bring entrepreneurial processes into the debate seems to further complicate this issue. Although this may seem more complex than is necessary, entrepreneurial processes happen within organisations, small and large, on a day-to-day basis. Learning, adapting, analysing and grasping opportunities on a daily basis on an organisational level show signs of entrepreneurship.

The addition of SME into the discussion further strengthens and specifies the research. Organisations come in many shapes and forms. Organisations need to be analysed and explored in a more intimate basis by using specific types of organisations (such as Mintzberg's 1983 typology) as a guideline in research.

## **3. Research Question and Aims**

The above review of the literature illustrates the importance of family businesses within the economy, especially those that are considered SME (Small and Medium Enterprises). In South Africa SME Family businesses are an integral part of the economy, job creation, poverty alleviation and skills development. However the low success rates of family businesses into subsequent generations is worrying. The study of entrepreneurship shows that within established businesses, entrepreneurial processes help organisations adapt to change and ultimately survive in the current turbulent environment. This leads us to the question that may help to begin to solve the family business survival problems:

*Research Question: Is there entrepreneurship within established family businesses?*

This study aims to explore the presence, if any, of entrepreneurship within established family businesses. Established family businesses in this context are defined as businesses that are within their second generation of family business ownership or older.

This research has one main aim:

- Explore the level, nature and extent, if any, of entrepreneurship within established family businesses

Although this study is predominantly exploratory it will use Miller's (1983) three-dimensions of entrepreneurship as a guideline, namely: innovation, proactiveness and risk-taking. Two additional dimensions have been added from subsequent literature, these are: aggressive-competitive and autonomy (Lumpkin & Dess, 1996). Hofstede's (1991) six-dimensional model of culture as discussed by Zahra, Hayton and Salvato (2004) will be used as a framework to explore the possible relationship between organisational culture and entrepreneurship.

The aforementioned studies will be used to inform questions and topics that are asked of the participants and of the data; however the researcher will be open to alternate explanations and expansions on these theories. Although technical literature can assist the researcher in choosing questions to be discussed in data collection, the researcher must be aware of the specific context of the research and must allow the results to come from the data itself and not predetermined theories (Strauss & Corbin, 1990). Semi-structured interviews will allow for participants to help the researcher re-define and alter terms and concepts, thus maintaining the exploratory nature of this study. Further method related concerns will be discussed below in the methodology section.

## **4. Methodology**

### **4.1. Data Collection**

A qualitative methodology within an interpretive paradigm was used in this study. Thus, a small group of participants were called upon to discuss and explore their experiences within their businesses. The sample consisted of four established family businesses in Grahamstown. Well-known family businesses in Grahamstown were approached and recruited. An attempt was made to have a culturally diverse sample in order to explore different family values and whether or not this comes through into the business. Difficulty in finding established family businesses of African descent resulted in the participants consisting mainly of white South African families. The final sample consisted of three white South African families and one Indian-South African family.

The businesses all had to be within their second generation, or older, of family ownership and management in order to qualify for the study. Due to the difficulty in identifying and exploring the nature of organisational culture and leadership, multiple people in each business were interviewed where possible. The owners of the businesses, as well as two

employees, one family member and one non-family member were interviewed where possible. This gave a more holistic view of the organisation from various viewpoints.

The total number of participants varied across the businesses, with a minimum of two for some businesses and a maximum of five for other businesses. In total there were eleven participants (table 3). Franchises were considered as there were not sufficient independent businesses to participate, however they were dealt with slightly differently as there were two organisational cultures present: that of the overarching franchise and that of the individual business. Franchises were also considered in order to give an insight into why they decided to franchise, if this had any restriction on entrepreneurial activities and what support the franchisor gave to the franchised businesses.

<b>Business type</b>	<b>Business industry</b>	<b>Number of participants</b>
Small Business – independent	Refrigeration and Air conditioning	4
Small Business – independent	Dry Cleaning	2
Small Business – Franchise	Photography	3
Medium Business – Franchise	New and used car retail	2
		TOTAL: 11

Table 4: Overview of participants

The data was collected using a small purposive sample and aimed to generate thick, rich descriptions of their experiences (Terre Blanche, Kelly & Durrheim, 2006). Semi-structured, in-depth interviews were the source of data collection. Interview schedules were used to ensure that the research question remained the focus of the discussion; however the interviews remained conversational in nature (Bryman, 1989). A customised interview schedule was used for each type of participant (owner, employee, non-family employee) to ensure that pertinent issues relating to entrepreneurship within the family business were covered (See Addendum A). However, the participants were encouraged to talk freely and not restricted to discuss only the topics on the interview schedule. Interview schedules were aimed to encourage conversation around the research topic, not restrict conversation (Braun

& Clarke, 2006). Moreover, interviews were voluntary and conducted according to the comfort and convenience of the participants.

Interviews were recorded using a digital audio recording device to allow for verbatim transcriptions to be produced from the interviews. The verbatim account of the participants was necessary for the coding process during the analysis (Strauss & Corbin, 1990).

#### **4.2. Data Processing and Interpretation**

An abbreviated version of Strauss and Corbin's (1998) Grounded Theory approach was used for the purposes of this research. According to Willig (2008) the abbreviated Grounded Theory is used when the researcher experiences time constraints and decides to only use original data collected from the research process. The principles and techniques are the same as the full version of grounded theory. However theoretical saturation, theoretical sensitivity and negative case analysis can only be conducted within the data or text that the researcher has collected (Willig, 2008). Technical literature in the form of entrepreneurship and organisational culture theories were reviewed briefly in order to ensure relevant data was provided through the interviews, as theoretical saturation had to be achieved within the collected data. The abbreviated version of grounded theory does not allow for the researcher to re-interview the participants, therefore it is important to gather relevant data within the first round of interviews (Willig, 2008). This is not an ideal form of grounded theory, although for the purposes of this study it was appropriate because there was a small sample and there was limited time in which to conduct the study.

The research moved constantly between induction and deduction as instructed to by Strauss and Corbin (1998). Data collection and analysis were conducted simultaneously in order to see possible gaps in the data, and to identify developing codes that may have needed clarification (Willig, 2008).

Data analysis was conducted according to the guidelines given by Strauss and Corbin (1998). This entailed: Coding the data using open coding, axial coding and selective coding and producing a theory (Strauss & Corbin, 1998). Coding can be defined as "operations by which data are broken down, conceptualised and put back together in new ways" (Strauss & Corbin, 1990, p. 57). Due to the abbreviated nature of the research analysis, theoretical sampling did

not take place, rather the theoretical saturation occurred from the data that was gathered (Willig, 2008).

Before analysis takes place, one has to be aware of theoretical sensitivity. Theoretical sensitivity is extremely important in grounded theory research (Strauss & Corbin, 1998). Theoretical sensitivity can be defined as the: “attribute of having insight, ability to give meaning to data, the capacity to understand, and capacity to separate the pertinent from that which isn’t” (Strauss & Corbin, 1990, p. 42). In order to gain theoretical sensitivity one can read technical literature, such as theories. In relation to this research, the researcher read existing theories within the fields of family business and entrepreneurship in order to ensure there was a working knowledge of the issues at hand. However, these were not used to pre-determine codes and categories. The analysis remained inductive and strongly rooted in the data (Strauss & Corbin, 1998).

The open coding process is one in which the researcher makes comparisons and asks questions about the data on a micro level (Strauss & Corbin, 1998). The verbatim transcripts are used. Conceptual labels are given to the verbatim transcriptions in order to establish the meaning within the data (Strauss & Corbin, 1998). One could code the data in a line-by-line manner in which each line of text is compared, questioned and labelled with a conceptual code (Strauss & Corbin, 1998). Alternatively larger segments of data could be analysed, such as sentences or paragraphs (Willig, 2008). Due to the abbreviated nature of the grounded theory, Willig (2008) has made it clear that line-by-line coding is necessary so as not to omit any meaning of the data, as the data set is already considerably smaller. Thus, line-by-line open coding was performed on the data.

After the initial coding process was completed, as described above, the researcher completed axial coding on the data. Axial coding is the process in which the concepts established in the open coding process are put together into categories, sub-categories and relationships are established (Strauss & Corbin, 1998). Categories refer to “higher order, more abstract concepts” (Strauss & Corbin, 1990, p.61). Sub-categories are categories that can be seen to relate to a higher order category (Strauss & Corbin, 1998). Thus, during the axial coding process the categories and sub categories are related to one another and a web of inter-relations are mapped out (Strauss & Corbin, 1998).

The final step of coding is selective coding. This is the “process of integrating and refining the theory” (Strauss & Corbin, 1998, p. 143). The selective coding takes the analysis to a

more abstract level of analysis (Strauss & Corbin, 1998). The use of diagrams and memos throughout the coding process is essential (Strauss & Corbin, 1998). A memo journal was kept throughout the data collection and analysis phases of the research. Memos are written accounts of the building of the theory and its categories (Strauss & Corbin, 1998). Thus, memos are important in the process of data collection and analysis as they can be used to look back on if there is confusion, or to see the progression of the theory creation through grounded theory. This research used dated memos throughout the research process to take notes of important concepts that were touched upon and could be highlighted at initial stages of analysis (Willig, 2008). Moreover, a reflexive journal was kept by the researcher to ensure that the researcher was aware of her role in the research and that any potential biases were recorded (Willig, 2008).

### **4.3. Reflexivity**

Reflexivity ensures that “the research process as a whole is scrutinized throughout and that the researcher continuously reviews his or her role in the research” (Willig, 2008, p. 16). The theories, knowledge and experience of the researcher become part of the data collection and analysis as the researcher cannot eliminate oneself from the research process (Braun & Clarke, 2006; Willig, 2008). Thus, it is important for the researcher to remain aware of her potential biases relating to this research. Notes were taken throughout the research process, this reflexivity journal can “increase reflexivity throughout the research process and it demonstrates the ways in which the researcher’s assumptions, values, sampling decisions, analytic technique and interpretations of context, have shaped the research” (Willig, 2008, p.46). These notes will be referred to in the results and discussions sections where necessary in order to show the impact the researcher has had on the research.

### **4.4. Validity and reliability**

Issues of validity and reliability in qualitative research are extremely important. Although the terms validity and reliability will be used in this project, it is evident that they do not address the same issues that are deemed important in quantitative research. Unlike quantitative research, which aims to ensure external validity and eliminate other possible variables, qualitative research aims to document the participant’s experiences as accurately as possible

(van der Riet & Durrheim, 2006). The validity within qualitative research is also referred to as credibility. The credibility of qualitative research refers to research that is “convincing and believable” (van der Riet & Durrheim, 2006). In other words, the researcher will aim to study other events that may influence the research, but does not believe that these events or variables can be eliminated (van der Riet & Durrheim, 2006). In order to ensure credibility “the researcher continually looks for discrepant evidence to the hypotheses she or he is developing as a means of producing a rich and credible account” (van der Riet & Durrheim, 2006). In this study, credibility was ensured by the researcher being open to other possible descriptions and explanations that may have influenced the research.

Other practical issues during the data collection and data capturing phases were also addressed to ensure sound research results. Firstly, validity was ensured in the interview process by using Kvale’s (2009) “validation at seven stages of interviewing” (pp. 248-249). These ensured that the interviews produced useful data in order to answer the research question at hand. According to Bryman (1989) “interviews that are closer to the semi-structured end of the continuum probably risk not gleaning information about what the subject deems to be important about the issues being examined” (p. 149). Thus, within this research, the interviews aimed to have as little structure as possible, only highlighting various topics and allowing the participant time and scope to discuss other issues which they deemed pertinent. The interview schedule merely acted as a discussion starting point to ensure that interviews did not veer completely off the research topic.

In terms of the data analysis and interpretation phases various steps were taken to achieve maximum validity within this study. Guidelines given by Strauss and Corbin (1998) were followed in order to ensure a rigorous and systematic research process. The grounded theory analysis was used, which is a well accepted form of qualitative research analysis (Birks & Mills, 2011; Bryant & Charmaz, 2007; Dey, 1999; Strauss & Corbin, 1998)

The reliability of the study has also been taken into consideration. In qualitative research, reliability does not aim to find the same results in different occasions. Qualitative research rather attempts to ensure that the findings are contextually bound and did indeed happen as they claim to have occurred (van der Riet & Durrheim, 2006). This is also known as dependability (van der Riet & Durrheim, 2006). “Dependability is achieved through rich and detailed descriptions that show how certain actions and opinions are rooted in, and develop out of, contextual interaction” (van der Riet & Durrheim, 2006). In addition to Braun and

Clarke's (2006) guidelines, rigorous checking of the transcriptions was used. The researcher read over and checked the transcriptions to ensure that they were a true representation of what the participants had said. Additionally, the grounded theory nature of the study encourages theory and results to be closely rooted in the data (Birks & Mills, 2011; Bryant & Charmaz, 2007; Dey, 1999; Strauss & Corbin, 1998). One must, however, acknowledge the role that the researcher plays in the interview process (Potter & Hepburn, 2005) and the research process as a whole (Willig, 2008).

#### **4.5. Ethics**

Ethical considerations are important in research; therefore, various ethical precautions were taken within this research to ensure that harm was not inflicted on the participants. The proposal for this research was put under ethical scrutiny and received ethical approval from the Research Projects Ethic Review Committee (RPERC) within the Psychology department. It later was reviewed and approved by the Rhodes University Humanities Higher Degrees Committee (HHDC). Due to the small group of participants, names of businesses, participants and other biographical information were changed in order to preserve their confidentiality. Moreover, their interview recordings and transcriptions were only accessible to the researcher and supervisors of this particular project. Participants were given tape recording forms to sign before they were recorded and were informed of these aforementioned confidentiality issues (See Appendix B).

All participants were verbally informed about the nature of the study and the ethical consideration. Participants were notified of the possible risks involved in the study in order to obtain written informed consent before the study commenced (Willig, 2008). Informed Consent forms with further departmental information and ethical considerations (see Appendix C) were given to all participants. In addition to this, the right of the participants to withdraw from the study at any time were clarified (Wassenaar, 2006). Furthermore, summarised versions of the research will be given to the participants so that they too may benefit from the research.

## **5. Findings**

### **5.1. Introduction**

The coding and categories that were addressed throughout the data collection and analysis phase were linked to the overarching theme of entrepreneurship. This is to assist in the answering of the question at hand. While not all categories could be linked directly to entrepreneurship there were important themes that give context and depth to this research, thus they were included in the findings.

The main categories and sub-categories with their connections and relationships were summarized pictorially in the diagram below (Diagram 3). There were four businesses that participated, their names will not be released due to confidentiality, however a summary of their industries and the names that they will be referred to as can be found below in Table 5. The main categories that were seen to contribute to the process of entrepreneurship within the businesses were: Risk Taking, Opportunity Grasping, Change, Creativity, and Active Competition. Some challenges and direct obstacles to entrepreneurship became apparent through the interview and analysis process, factors that were seen as obstacles were: Employees, and Previous Generations. Succession was included as it was extremely important in understanding the context of family business and how succession was planned in previous generations and how it will be planned, or not planned, in the future. Part of the succession category that became important was the emphasis on gender in deciding about future succession. Lastly, the category termed “Local Economy” which pertains to the Grahamstown economy was seen as integral to the discussion of findings as it offers context for the businesses. The sub-category of Community that falls under Local Economy also links to the Loyal Customers sub-category of Active Competition.

The findings will be discussed to depict the story of the participants and their businesses within the context of the local economy. This story is told using the data closely to add depth and detail; however it was analysed by the researcher and will emphasise and highlight aspects that were seen as important through the lens of the researcher using theoretical sensitivity as explained by Strauss and Corbin (1998).

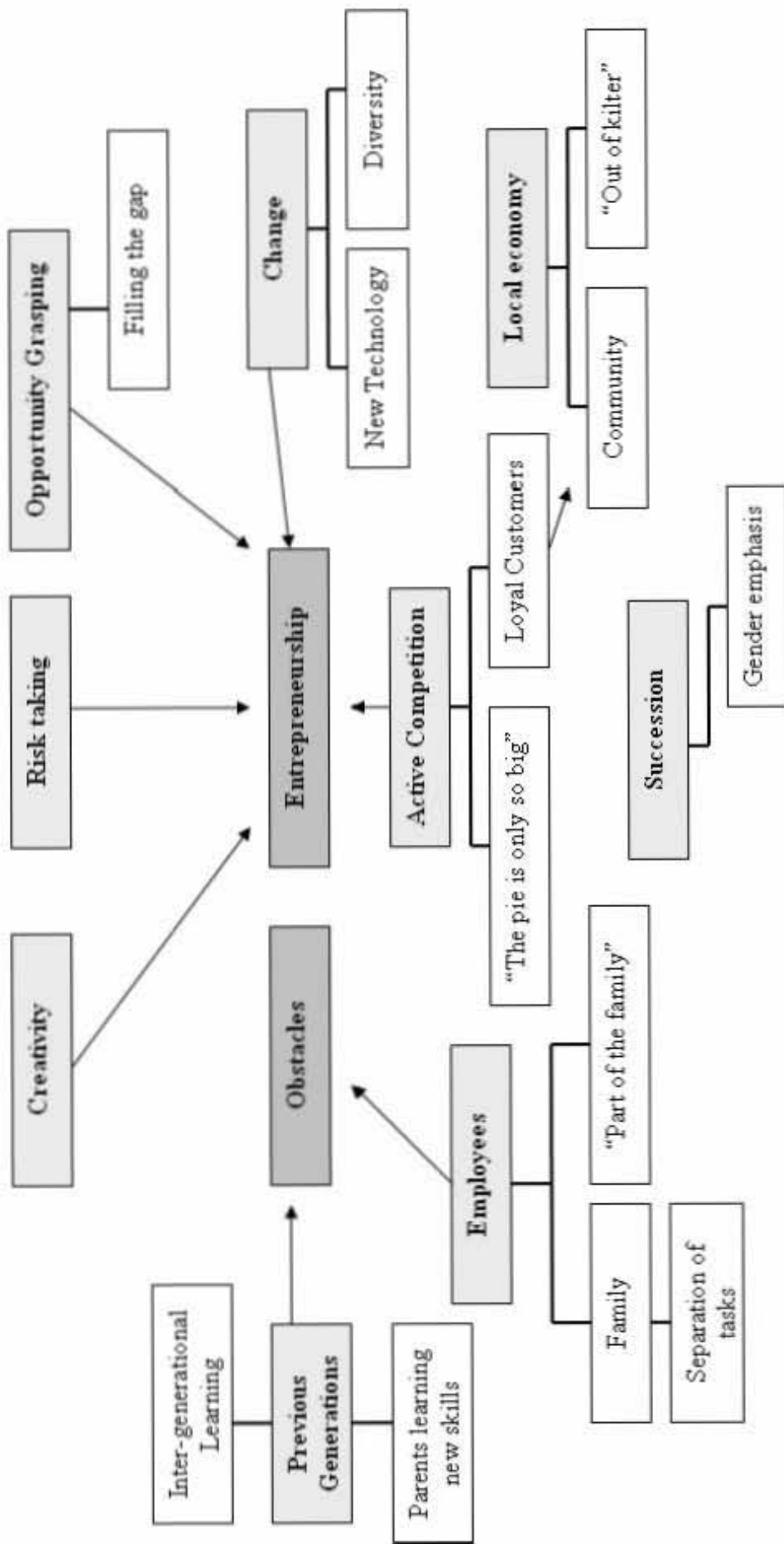


Diagram 3: Summary of Findings

<b>Businesses</b>	<b>Industry</b>	<b>Number of Employees</b>	<b>Franchise/independent</b>	<b>Name for purposes of discussion</b>
Business 1	Refrigeration, air conditioning – repairs and retail	12	Independent	Refrigeration
Business 2	Dry Cleaners	5	Independent	Dry Cleaners
Business 3	Photography lab – retail and studios	5 + 1 part-time	Franchise	Photography
Business 4	New and used car dealership	32 (21 in Grahamstown, 11 in Port Alfred)	Franchise (new cars), independent (used cars)	Car Dealership

Table 5: Summary of business participants

## **5.2. Entrepreneurship – Risk taking**

An important part of the survival of these local family businesses was engaging in seemingly risky behaviour. Across the industries and different businesses there was evidence of taking risks in business decisions. Whether the owners were aware of these risks or not, there was evidence of risk across all businesses.

The Refrigeration business owner claimed to be quite conservative, citing his expansion of the front-of-house sales section as his biggest risk:

*I've been a very conservative person. The only risk I've really taken is this front shop, because it used to be only workshop, so that's probably the biggest risk I've taken.*

However, the Refrigeration business is also involved in commercial work with large apartment developers. The mother of the owner highlighted the risk involved with such large developments for a small business. The business pays for bulk commercial products, such as

refrigerators, microwaves, washing machines and tumble dryers, upfront with their own money before being paid by developers. As a small business this is an enormous risk, if the developers do not pay them back they would be 600 000 rand out-of-pocket. This kind of money would make a huge impact on the business' financials. However, these are necessary risks, because if they did not provide the service of supplying all the appliances upfront, the contractors would look to larger competitors to do business with. This risk is identified by the mother of the current owner of the business:

*You know, that's a risk because you order R600 000 worth of appliances, and you know, we never worked on an overdraft, we have a facility, but he never uses it. So you sit and you think: Are these people going to pay when they say they are going to pay?*

The reluctance to use an overdraft system shows that the owner shows a degree of caution in his risk taking behaviour. He avoids going into debt or owing money, but offers his services to large contractors in town nonetheless. In terms of the family involvement, the owner states that his wife “keeps her thumb on him” or discourages large risks. However, his father and mother, who are still involved in the business, encourage risks and support his decisions to take risks. However, there is a sense of caution and conservation of what wealth they have. This could be attributed to the parents coming from a very humble beginning in the business:

*We're very very careful. I think coming from having nothing and building it up you are extra careful, you know, when my husband and I started we had nothing...We owed money, you know, you worry about that money that you owe I think that's why we're so careful*

Thus, the son is encouraged to take risks, however to preserve the financial status of the business and the family, this has to be done by demonstrating caution in all of his decisions, even the seemingly risky ones.

Other businesses in the study also illustrated signs of risk taking. Two businesses showed risk taking through purchasing extremely expensive machinery for their businesses. The Photography business was the first of these businesses. It was bought as a franchise in Grahamstown after the father had attempted to run multiple other photography stores and businesses around the country. The father is in the process of retiring and the son, who has worked for the business for many years, has started taking a more managerial role in the last year. The Photography business had to decide to make the change from analogue machinery

to digital. The decision was accelerated by a tragic fire that burnt down their entire business premises in 1999. This was on the brink of digital technology, the owners were not entirely sure if digital technology would in fact take over. However, they decided to take a risk and purchase a digital photograph printing machine to the value of one million rand. This was the first digital machine in any photography lab in South Africa, which shows that it was a huge risk to move to digital technology before the rest of the country.

*So after the fire we were making the decision to buy a digital machine or an analogue machine, and we made the decision to buy a digital machine, in fear and trembling, umm...it was over 1 million rand, we actually got the first machine in SA to be put into a lab, so it happened around the right time, so it was a huge risk.*

Luckily, this risk paid off in the end with digital technology coming into South Africa at an alarming rate. Many photography labs around the country, and the world, closed as a result of changing their machinery too late. However, digital technology saw rise to other changes in the industry, such as decrease in developing film and merchandise sales (these will be discussed further under the category Change).

The second business that demonstrated large amounts of risk within their business was the Dry Cleaning business. The Dry Cleaning business was established four generations ago by the current owner's great grandfather. His grandfather subsequently took it over. The third generation, his father, was bought into the business at a young age, even taken out of school to work full-time for the family business. The father had run the business for many years, but had not invested in new machinery in his time running the business as he intended to retire and close the business. The son, however, moved to Grahamstown in the past few years and took an interest in the family business. He saw potential in the business, but there was much work to be done to help the business recover and prosper. Part of that work was replacing the machinery, which was extremely expensive. The current owner, the fourth generation of family ownership, saw a need to update the machines to the electronic era, however did not have capital to do so:

*What I did is I used what I had, made some money, saved some money used that to put down as a deposit and then I financed it, and I bought my first new machine. But I only financed it when I had my first contract, and a lot of time went into that one contract because when I got here there was no work.*

Although he had taken a risk by taking out loans to purchase his new machinery, he did not do so without making enough money first to put down a deposit. This was some cautionary and practical steps that were taken before the risk was taken. He ensured that there was a larger income, through getting contracts with local schools to do their dry cleaning, before he took out a loan. This ensured that he would have the means to pay back the loan and that it was feasible. Parallels can be drawn between this precautionary measure and that of the Refrigeration business above. However, the dry cleaner did not have the capital to invest straight away, but he made sure that the means were in place to re-pay the debt he was getting into. Nonetheless, risk was evident in the business. And unlike the owner of the Refrigeration company, who had support from the previous generation, the owner of the Dry Cleaning company's father did not approve of him buying new equipment (this will be discussed further in the section on Obstacles).

The final business, the Car Dealership was started by the father of the current owner. The father started off as a mechanic working for a dealership. He worked his way up to salesman and then to manager. When the owners of the dealership wanted to pull out, they offered the business to the father to purchase. With the help of three other investors, the father was able to purchase the dealership. He then paid out the other partners in the following few years and became the sole owner. The business has had financial ups and downs in the past. It has been bankrupt in 1989 and 1999, after the second bankruptcy the father committed suicide because of financial pressure. This was a huge tragedy and shock to the family. In his will he left majority shares in the business to his first son and minority to his second son and money to his daughter. The majority shareholder son took loans in 1999 to re-build the business and pull it out of its negative financial situation. This, in itself is a huge risk. He had an option to sell the business, but instead decided to take a risk of debt and re-build it. After succeeding in rescuing the business, the older brother bought his younger brother out, becoming sole owner of the business. The second brother came back after a few years to work for the family business as an employee.

Further risks can be shown to be taken by the Car Dealership through stocking the showroom floor with new cars. All new cars have to be paid for upfront in order to be displayed in the local dealership. This can amount to approximately five million rand that has to be paid for by the dealership or borrowed through various overdraft facilities. If the cars are not sold within a month they begin to incur interest on the loan. This becomes a huge risk for the business:

*At the moment we've got (looking in book) R5.4 million worth of new cars in stock ...So its basically like an over draft and they give you a 21 day interest period where you don't pay interest and then you pay for the car or carry on running it on that facility but then you pay interest on a monthly basis, so the idea is that you've got to move the cars in 21 days.*

The stocking of the business is a nationwide policy within the industry and not necessarily attributed to the individual's initiative in taking risks. It is part of the business and the business could not function without that stock. However, it does show that the owner has a high tolerance for risk as he has survived and done well within the car dealership industry.

However, the Car Dealership has taken a further risk by starting a second branch in a close-by town, Port Alfred. This dealership has been running for a few years and the owner has just decided to purchase land in Port Alfred and build new offices and showrooms in Port Alfred. This is an enormous risk as the local economy in Port Alfred has recently been adversely affected by the decline in the pineapple farming economy. However, the owner has taken a risk to buy and build new offices in his second branch:

*Port Alfred our biggest market was with the pineapple industry, they crashed about three years ago, they are starting to come right now... In Port Alfred our stable market is the retired folk who obviously go to Port Alfred with money, businesses there are in a terrible state, you can hire commercial property there for nothing.*

The uncertain economic climate in Port Alfred illustrates the high level of risk in opening and building new premises there. However, the owner is adamant that it will be a good decision because he feels that it will create similar positioning to his offices in Grahamstown, which have done well. He believes in grasping opportunities following your intuition, as he says: “you just have to go with the flow and change your attitude towards business and just go where it is”.

### **5.3. Opportunity Grasping**

All four of the businesses show signs of identifying and grasping opportunities in their businesses. Often the owners are not able to describe how they came about making the decision. Some said that they just “go with the flow” while others say that they just suck their

thumbs (in other words they guess). They use their discretion to decide which the good opportunities to pursue are. The Refrigeration business saw an opportunity in property. The building that his business is currently in is more central than his previous location. He also said that he got for a good price. Thus, he identified potential in the property and grasped it. He saw the building, negotiated with the owner and purchased it all within two days. He saw opportunity in the property for a reasonable front-of-shop section and a workshop, while becoming more centrally situated in the Grahamstown Central Business District (CBD).

*That just something that I just wanted to do [larger retail section in front-of-shop section], because I saw potential in it, I saw that I was losing money... It was just a spur of the moment thing. Like, I drove past here and I said "I wouldn't mind buying that building", the one that I'm in now. So I walked in and I said to the guy "would you like to sell here?" and he said "Ja" and he said R600 000, I thought that was a bargain. So I said okay well lets sign, so he got the papers the next day and I signed*

The Refrigeration business owner saw potential in the building and did not hesitate to grasp that opportunity. Although that opportunity opened doorways through better positioning and more space, it did not directly fill gaps within the business. Other opportunities that were grasped acted as a way of filling gaps within the business and expanding the business' markets to a certain degree.

### *5.3.1. Filling the gap*

The Car Dealership had difficulty keeping the business afloat partly due to national interest rate fluctuations, but also partly due to the fact that the late-father did not believe in selling used cars and focussed more on the new car side of the business. However, once the son took over he saw the gap in the business and developed a used car dealership that ran alongside the new car dealership. Although the new car dealership was a franchise which delineated the aesthetics, machinery, and service levels, the used car dealership was completely independent. The new car dealership became a source of used cars, because trade-ins were offered to customers wanting to buy new cars. More profit was actually made off the used car business than the new car business, thus the gap that was filled by the son on the used car side of the business was integral to the survival of the business:

*It's [new car dealership] also a source of used cars for us because people trade in their car, their old car for a new car, so they feed off each other, the used cars and the new*

*cars, but as a franchise new car dealership you will not survive in this economy without a used car department. There is no way that I would have this business standing on its own, it actually does not pay for itself, it basically covers itself through the used cars. The workshop and the spares, ja.. that's all a bonus.*

Thus, the opportunity that was seen by the son was the need for a used car dealership alongside the new car dealership. This created a dual-business, two businesses that operated alongside one another but separately. In the difficult economy not every customer can afford to buy new cars, thus the used car dealership caters for a different market and widens their market considerably. The Refrigeration business had a similar, but somewhat inverse idea of filling the gap in their business.

In the Refrigeration business the owner saw potential opportunities in his front-of-house retail section. He noticed that the business was losing out on business by not having new appliances to sell to customers whose appliances were beyond repair. The customers would replace their appliances through other shops that had greater selection. Thus, he increased his retail section of the shop and offered trade-ins to people who had appliances that were not worth fixing. He also offered not to charge for the call-out fee for the repairs, thus it was more appealing for them to buy a replacement from his shop.

*I only used to do repairs, but then you used to go fix a guy's washing machine or his fridge and then you can't repair it and you say, "no, it's not worth fixing" it's like redundant and then that's it, your customer is gone now. But now we say: "go to the shop, we won't charge you for this call out if you get a new machine from us". You know what I mean, so then it's a snowball.*

The idea of trade-ins for unfixable appliances created a larger customer base for the retail side of the shop. It encouraged people who would have normally travelled to a larger city, or to a different shop, to purchase new appliances from the Refrigeration business. The Refrigeration business opened up their business to people who were looking to purchase new appliances, instead of purely focussing on repairs. The idea of being open to grasp new opportunities and identify opportunities for expanding their markets shows that these local family businesses are open to change within their businesses.

## 5.4. Change

Businesses adopted various forms of change within their business over the years. From the previous generations to the current generation there has been a wealth of change within the business. This change can be divided into two sub-categories, namely: New Technology and Diversity.

### 5.4.1. New Technology

Some of the biggest and most evident changes that have occurred within the business in question have occurred due to change in technology. All businesses that were interviewed have been affected by changing technology since their founding, thus the new generation of owners have had to adapt and change to incorporate new technology into their businesses. The ability of the businesses to identify and change from old technology to new technology shows that there are entrepreneurial processes within their businesses. The new technologies that will be discussed are as follows: The Dry Cleaning business changing machinery from labour intensive old technology to electronic new technology, the Photography business changed from analogue technology to digital, the Car Dealership embraced the internet as a tool for their business and the Refrigeration business adapted according to new inventions in appliances.

Firstly, the Dry Cleaning business made the move from extremely labour intensive old machinery to modern, electronic, less labour intensive machinery. When the Dry Cleaning business was started the machinery was virtually non-existent with labourers having to utilise highly laborious techniques to complete the work. When the son took over the family business, he saw that the machinery was at least a decade behind what it should be. The machines that were in operation still worked well, however they were impractical in terms of the heavy labour, the high water and electricity usage. Thus, the owner new it was time to change. He saved what he could and took loans for the rest and eventually began to re-stock the business with up-to-date equipment:

*In fact I think from my great granddad's days to my dad that was an era, call it an era, of the type of machinery that was used then. Now, recently, when I've taken over I've*

*come into a completely new era where everything is electronic now. ... We used it [old machinery] for a while in fact, for about two years, we've just discontinued my last washing machine from the old generation about three or four weeks ago. The other ones [old machines] were labour intensive. ...Now [new machinery], it's like your domestic machines, it washes and strains the water, but I'm not talking about your little domestic machines, I'm talking 55 or 60kgs of washing at a time.*

His ~~era~~ consists of machinery that is geared towards today's society, it saves water and electricity, it also decreases the amount of manual labour that is needed, all of these help to alleviate his costs of running the business. In fact, businesses in this industry strive to mechanise more, thus a decrease in employees for machinery is a sign of growth for the business. He had a clear vision of change for the business, which would pay itself off in the long run through cuts in running costs.

The second business that showed aspects of change toward newer technology is the Photography business. As mentioned above, the Photography business changed from analogue to digital photography. This was a necessary change, as digital hit the international market quickly and took over from analogue rapidly. There were considerable changes that were not foreseen by the father or son working within the business. Under the analogue system of photography cameras needed film to take photographs, which then had to be developed, generally by a photography lab, as very few people had the equipment or skill to develop their own film. Whereas, when digital technology became popular, suddenly people could pick and choose which photographs to print, moreover they could print them at home on their personal computers. With the increase in popularity in social networks and email, photographs could also be sent and shared without printing at all. The Photography business lost huge amounts of revenue on the digital era because they were no longer selling film or developing film.

*In those days you would buy a roll of film and you would have to bring it to us to be developed, you paid 100 bucks before you saw your first photo, and on the strength of that we took the chance of getting this machine of over one million rand and that would pay for that, and at that stage the graph was going up up up, people buying cameras and that, but when the digital hit we would sell you your digital camera and then we wouldn't see you again.*

Thus, the impact that the new technology could have on the business was not always easily predictable. The ripple effect that the digital era had on the Photography shop's sales was devastating to their turnover. The business had to adapt to this loss of sales through diversifying their products and services and recently renovating their premises to make it seem more aesthetically appealing to customers (this will be discussed further below under Diversity). However, the new technology did have its positive side.

The Photography business has two functions within the business, these are, firstly it was involved in retail and printing of domestic photographs for the public, domestic studios for portraits, as well as sales of frames, cameras and photography paraphernalia, this will all be referred to as the retail side of the shop. Secondly it provided photography services to commercial institutions and schools within the local community. The digital era became a positive aspect for the business on its commercial photography side of the business.

*The digital has helped us too, because we don't have to buy film and wait for it to be processed, we can deliver quite quickly, we also shoot on a green background and then we can superimpose any background.*

Digital helped the business deliver their commercial orders quickly and efficiently without the cost of developing film. It also led to greater customisation of photographs, such as the green screen mentioned above that allows for different colour backgrounds to be added to the photograph after it is taken, this allows for customers to choose which background they would like. Although digital did cause major decline in other sales, it has had positive effects on the business in other areas.

Another business that saw the effects of changing and improving technology over time was the Refrigeration business. The Refrigeration business not only sells refrigeration equipment, but also televisions, microwaves, stoves and installs and supplies satellite for television. The father, the founder of the business, spoke about the drastic changes that have occurred in technology from the start of the business to the business currently:

*I started TV in Grahamstown in 1975, but we've progressed. Now we've got DSTV and HD, so it's been progressive. I started the TV in Grahamstown, then the videos came out, then I put my own transmitter in Grahamstown, then Grahamstown got its own transmitter. So it's been an on-going story in Grahamstown. Now we've got the big flat screen TVs. I even had my own radio technician at one stage, and now you don't repair*

*radios, they're throw away things. I used to do all the TV repairs, now we send TV repairs to PE. So business has changed a hell of a lot!*

The business has had to change and adapt to the new technology over the years. Technicians have had to be trained according to what technology is feasible for the business. For example, the radios used to be popular and expensive before television, they used to be feasible to repair. Whereas nowadays they are so cheap that it is cheaper to replace the whole radio than to repair it. Moreover, televisions now have new additions that were not invented when the father was running the business, such as satellite television (DSTV) and DVD and video machines. Thus, the son has had to reevaluate what technology is worth stocking to sell new, what is worth fixing and what new technologies are worth employing in his business. Even the use of computers have changed the functioning of his business (this will be discussed further under the category Previous Generations and sub-category Learning).

Lastly, the Car Dealership has also changed and adapted to new technology since the previous generation of ownership. The owner talks about the importance of internet in his business today:

*At the moment 80 percent of clients in Grahamstown shop off internet, so they know what they want before they get here...We have a webpage, its not the best, but all the contact numbers are there, all the links and things are there to the new cars...The new cars people definitely go in have a look and by the time they come into the showroom they've made a choice...so it makes it easier for us. We still have to sell the product, but you are not up against five other makes where before guys would go from showroom to showroom...on the internet now all the specifications are there so it just makes life easier.*

The owner of the Car Dealership estimates that 80 percent of their clients use the internet to shop around for cars before they come into the shop to see the cars in person. This changes the sales process as sales personnel are no longer the only source of information, thus a lot of the pre-purchase research about makes and models of vehicles can be done by the customers at home. Their webpage therefore has to remain functional with all the necessary information available to the customers. This is a huge change from the days before internet where the customer would be forced to shop around in dealerships before they purchase. The internet is not the only source of technological change; other new technologies have made an impact:

*And obviously with follow-ups, we use SMSing and BlackBerry. We are now creating a system again where we email everybody; it's a huge marketing system.*

Following up on sales is important in the Car Dealership business. This is made more convenient through media such as cellular telephones, and BlackBerry cellular telephones make internet more accessible to customers.

Although there has been evidence of new technology being incorporated into all the businesses, some businesses have had to use different strategies to survive in the highly technological era of today's society. One tactic that was identified through the interview and analysis process is the business diversifying.

#### *5.4.2. Diversity*

Most of the businesses that were questioned showed signs of changing their business and diversifying their products or services. This was mainly in response to customers or change in demand for certain items. This was also a response to changes in sales due to new technology. A prime example of this is the Photography business that was hit hard by the change from analogue to digital photography.

The Photography business did not anticipate the enormous changes that would affect their business after the change to digital. Their merchandise sales went down and they needed to find ways to make money through incorporating different tactics in their business. They tried making their retail shop more appealing by increasing their range of frames, photograph albums and other accessories. They also recently renovated their shop to make it more user-friendly, brightly coloured and enticing.

*We didn't make up, there was nothing to make it up, in fact we are in the throws of making some drastic decisions, we've just done all the renovations and things, we're trying to think of how we can.. we have to make some real big changes in order to survive, we took on key cutting, we now print books, we now print magazines, posters and canvas prints, we sell frames quite big, there are a lot of other things you have to do.*

They have also tried to diversify their services into non-photography related services, such as key cutting, which they would never had to do in the past under the analogue system. They have also used their machinery, such as printers that were usually only used for printing photographs, to perform other tasks, such as printing books and magazines. This shows an expansion of their services into the printing industry. Their willingness to change, diversify and bring in different clients in order to survive is evident. This shows entrepreneurial processes that are in work, as they are not being defeated by the changed market, they are rather thinking of new ways of making money through their business. Luckily the franchise that the Photography shop is under is not restrictive and allows for diversity, renovations and creativity in their aesthetics. The franchise's only condition is that they source their machines and printing paper from the franchise. This leaves the owners open to making decisions that they see fit to change their business. They are also now aware that they have to be open to change in the future because it is such a rapidly changing industry. As the founder so eloquently said: "we have to keep on our toes. A lot of things are changing in our lifetime, faster and faster".

The other business that shows signs of diversifying in the second generation is that Refrigeration business. The current owner spoke about the need to diversify and expand the range of services and products that he provides. This is partly in response to the increasing technology of the era which invented trimmings for televisions which he has to stock. Additional changes to the business also include more commercial business, as opposed to domestic call-outs and repairs that was his father's main business. The son's account is:

*It was more domestic [in the past], I'd say it was more home appliances and sales. Now I would say that we are more commercial refrigeration and air conditioning. I have changed the business a bit, now we are doing heat pumps and solar geysers - More energy saving stuff. We do a wide variety, we do satellite installations, we do home appliances, we do refrigeration, we do air conditioning - we do commercial and domestic on both [refrigeration and air conditioning]. We also do commercial and domestic on appliances, so if one side is quiet there is always something. You find that the guys that only do commercial refrigeration, they battle.*

There have been changes that the owner has sought out himself in response to the changing climate, these are eco-friendly heating systems, called "heat pumps". These heating systems do not run on electricity which is appealing for people who are environmentally conscious or

that would like to spend less on their utilities. Thus, it opens up new markets. This eco-friendly heating is an entirely new service that has started to be supplied by the Refrigeration business. The Refrigeration business has diversified to ensure that the business has services that can be offered all year round. The refrigeration installation and repairs are in highest demand during the summer months, as refrigerators often break down in high temperatures. Air conditioning is also mostly a summer business. The eco-friendly heating system, however, will allow for a service that can be supplied mostly during the winter months to improve heating during winter, thus ensuring that there is business for the Refrigeration business all year round. This also sets him apart from his competitors, some of which only offer refrigeration installation and repairs as a service.

Although many of the businesses show signs of diversification in the second generation, the Dry Cleaners do not show signs. When asked about changes, they said that they changed the machinery which is a big change from the father's generation. In their industry, however, they find it difficult to diversify because it is such a simple and straight forward business. Although they have increased the numbers of commercial contracts, they have not showed signs of increasing the services that they offer. This is largely attributed to the industry that they are operating in.

## **5.5. Creativity**

Most of the businesses that participated in the study showed signs of change, as discussed above. However, few show signs of innovation or creativity in their business. Creativity is difficult to achieve because it entails doing something in a novel way, or re-organising resources to achieve the same result through different means. One business in particular has shown a prime example of creativity and innovation within their business. This can be seen as a contributing factor to the process of entrepreneurship. The business that this section will focus on is the Photography business.

The Photography business realised through the past decade that their industry was a rapidly changing industry. They became aware that they would have to attempt to innovate and do things in a novel way in order to please their loyal customers, survive and stay a step ahead of their competitors. This creativity is something that has been passed down and encouraged from the father, the founder, to the son, the current manager:

*I'm quite inventive or creative and I think it is because my dad invented some things and he had a book or two published...And software was something that I create, so I think just naturally we are inventors or entrepreneurs...we have to be inventive.*

The son used this creativity to revolutionise the way that photographs were reviewed and ordered by the scholars in town, the private schools being their loyal clients in Grahamstown. The old system of ordering photographs from school events, such as evening balls, entailed the Photography shop printing out preview sheets with small versions of all the photographs on. The children would then have to find their photograph, write down the numbers manually, these orders would then be collected from the schools and printed out manually by employees at the Photography shop. However, the new software has made that whole process digital.

The son, second generation manager, wrote a computer programme that could be installed, free of charge, onto the computers at schools. Currently all of the private schools have it on their computers, some of the government schools refused to install it. This software allowed the students to browse through photographs on the computer that the Photography business had taken at an event, to select which photographs they would like to order and to place their orders via email. This email would be received by the Photography business at their shop; another programme would automatically read the emails and print out the photographs. This changed the ordering process from schools considerably; it saved man-power and made it quick and efficient for the children to order photographs. Moreover, the private school students could place the cost of the photographs onto their accounts, which assists the business in getting their money and makes it easier for the children to order more photographs.

*I've written software and we've put the software in all the schools who will take it, we're giving it for free...So now they can log in, look at the photos, choose what function they want to look through and choose the pictures they want and which size they want and it gets emailed to us and I've got a programme here which automatically reads the emails and prints a cover sheet and prints the pictures.*

The Photography business is the first business in Grahamstown, and possibly the country, to utilize a system such as this in their ordering system. It puts them above their competition in town, another photography lab, and allows them to provide new and exciting systems to their loyal customers, the private schools.

## 5.6. Active Competition

All businesses have shown signs of active competition in their business. This can be seen in varying forms. Some businesses show general competitiveness through their business strategies, whereas others focus their energies on pleasing their loyal customers.

### 5.6.1. "The pie is only so big"

The Refrigeration business mentions two main types of competitors: the larger appliance stores in Port Elizabeth (a nearby metropolitan city) and the franchise furniture and appliance stores in Grahamstown. Firstly, the businesses in Port Elizabeth are listed as a threat because people often think that they will get better deals in larger cities and at larger stores: "I find people think PE is better because it is a big city, people are set in those ways".

When asked how he competes with these stores, he answered: "You've just got to keep up service, you've got to give good service". This shows that the owner actively improved his service levels to ensure that he does not lose customers to the competitive stores in nearby cities.

The second mentioned competitor was the furniture franchise stores. The previous owner, the father, mentioned that he views these franchises as a threat because a large portion of the African population buys from them due to their account and lay-buy systems.

*I think they are all competitors, for instance we have the suppliers to the African market who are really expensive. The African people do come into our shop and they query the prices and they shudder at how cheap our prices are. We do have a lay-buy system over three months, and a lot of them take advantage of that, as opposed to being ripped off, in my opinion, by high interest and extra charges for delivery. For instance to deliver a fridge they will charge exorbitant prices, while we don't charge at all.*

The Refrigeration business brought in a lay-buy system where people can pay off purchases over three months as opposed to having the full amount up front. This, in addition to their low prices and free delivery, has made them competitors of the franchise stores in town. Their active attempt to rival the franchises shows that they are extremely competitive within the local economy.

Another prime example of active competition is the Dry Cleaning business. The Dry Cleaners admit that there is a lot of competition in Grahamstown because there are a number

of other Laundromats who are in direct competition with them. When the son took over the business, his father had given a lot of his customers away because he was planning on retiring and closing the business. Thus, the son had to re-build a lot of the customer base.

*But I must say there is a lot of competition...We've got a lot of other Laundromats in town, maybe there is enough work to go around, but it puts a lot of pressure on us...We survive mainly on larger contracts.*

The larger contracts that are mentioned above were achieved through the tireless efforts of the owner to re-sign some of the old contracts that had been previously discontinued by his father. This showed that he actively went out and found business, pleaded his case, and then worked extremely hard to keep those contracts (this will be discussed further under Loyal Customers). His account of actively searching for customers:

*All the competitors had taken all the business. There was nothing, not even the schools.. I went to one of the private schools and begged them to give us a chance and they did. After that I bought my first machine. Funny enough we put so much energy into that one contract that today we have three.*

Thus, he went out and searched for customers, even if they were already being served by other Laundromats. This showed that he actively pursued customers and competed in direct lines with the other dry cleaners in town.

The Photography business showed active competition through their innovation. They put themselves a step ahead of the other photography lab in town by inventing new software that was technologically advanced and appealing to the youth as it was computer based.

Alternatively, the Car Dealership acknowledged that they couldn't take their development of products into their own hands. The Car Dealership pointed out the fact that they are extremely reliant on the development of products, in other words new models of motor vehicles, by their distributing company. Thus, there is little they can do on the product development side that can assist in competing with other brands of motor vehicles.

*It's all about your manufacturer and their development of new products...It depends on the manufacturer, they've got to keep rolling models, the new models sell, people want to change their car they want a new one, they don't want a new shape, they'd rather wait for the new one..*

Their competition in terms of product, therefore is very much dependent on their manufacturer. They do place huge emphasis, however, on their service levels. The owner states that they attempt to keep their service levels high above the other car dealerships in town. The franchise that they are under helps improve service and maintain high levels of service through checking their Customer Service Index (CSI) and using this to give incentives to dealerships. This Car Dealership, in fact, has won various holiday prizes for its excellent service. This promotes almost a spirit of competition within the franchise between dealerships, which heightens the levels of services at an individual dealership level and across the franchise.

*the service levels are extremely important, if you bring your car in for a service you get phoned two days later, you get phoned by us first, and then you get phoned by a research company and they ask you questions about our service. That service level goes back to our franchise that's how they check on you. "Was he dressed nicely? Did he have shiny shoes? Did he show you the car? Did he offer you a test drive?" they ask you all those questions and based on that score and your financials, and your corporate identity, they then reward you. So that's why I go on all those trips. So you are incentivised on all of that, it keeps you on your toes, that's why a franchise is good because there are those checks in place.*

Thus, the positive of being part of a franchise is that they help you assess your service levels, your financials and your corporate identity (which has to be in line with the overarching franchise's image). This gives the business a competitive advantage as they know that their service levels are high, not only for Grahamstown, but compared to the whole country's small dealerships within that franchise. This kind of service survey would be difficult to conduct for a small business alone. Thus, it gives the business an edge in getting a piece of ~~the~~ "pie" in such a small market.

#### 5.6.2. Loyal Customers

All of the business, to some degree, attribute their survival to the loyal customers within the local economy of Grahamstown. The Photography, Refrigeration, and Dry Cleaning businesses are good examples of this.

The Photography business has had certain schools stay loyal to their since they began the business 22 years ago. This shows large amounts of loyalty toward one business in town. As

a result of this, the owners of the business try to accommodate them, they make sure that they come up with new ways of pleasing their loyal customers, such as the computer ordering programme that they designed specifically to cater for the school children in town, especially at the private schools. They fear that if they do not keep up with the times technologically and provide them with new or innovative services, that they might move their business.

*Ever since I started the private schools have used us exclusively for 22 years, so we try to come up with improvements at the school all the time, to keep them happy and to make sure that they don't move their business.*

Not only do they pre-empt technological systems to impress their loyal customers, they also use initiative so that the school does not have to worry about which functions are being covered and which are not:

*you know, its gotten to such a situation that if anybody else comes in... how do I put it.. we know what to do, we know what the next move is, they don't have to tell us. We know how they like it, traditional, the boys schools are very traditional.. less so at the girls' school, but I mean it is such at the girls' school that the head says to me "whenever there is anything happening, feel free to take photographs". In certain cases they commission us to take photographs and in other cases we just go and take photographs and put them on the computer thing and the girls order them. It would be really difficult for anyone else to come in.*

Thus, they have positioned themselves well as the sole photography company servicing the private schools. They have a copy of the private school calendar and will show up to any functions that they think the students might buy photographs from. This makes them difficult to replace at the school. Moreover, their computer programme ensures that they do not spend additional money or time printing out photographs for additional events, thus it is worthwhile for them to do as many events as possible and increase their chances of making sales. The Refrigeration business, on the other hand, also shows signs of having loyal customers, but secures their business in different ways.

*And I think, as a family business you've got the customers, the good old loyal customers that always come back. When we started business, I know that my son still has one or two of those customers right from the beginning.*

The above quote from the mother of the current owner shows that extent to which customers can remain loyal to businesses in Grahamstown. They have had customers stay with the business from its founding in 1968, even staying loyal into the second generation of ownership. This gives the business a huge competitive advantage to franchises in Grahamstown.

The owner of the Refrigeration business discussed the importance of the loyal customers within his business: “When you get certain customers that will only deal with me, then they spread the word. You get your loyal customers. If they are happy then the word is going to spread”. Thus, the loyal customers, although they can have special requests, such as only dealing with the owner of the business, they are loyal to the business and will only work with them. This means that it is important for the business to keep the loyal customers happy and ensure that their needs are being met to a satisfactory level. Because of the close knit community within the local economy, the word travels via word of mouth and the Refrigeration business might get more business as a result.

The Dry Cleaning business was under slightly different circumstances because the father had given away his loyal customers in preparation for retirement and closing of the business. However, after the son decided to take over and continue running the business, he had to rebuild the customer base. He did this through meeting with the schools and other contracts that his father used to have and appealing to them to use them as their dry cleaners. He managed to get one contract and because of his dedication and the excellent service that he provided to them, he now has three contracts.

*I'll be honest its very very simple, I have learnt in my industry and I'm sure in any industry that does well, look after your customer. What you do, do it well, so that they have no reason to move anywhere else. My competitors go to my customers and cut my prices in half to try get their business, and they wont leave me because they know what they are getting, and then they come back and tell me.*

The above account shows that although the Dry Cleaning business has not had their customers consistently from the founding or over a long period of time, his hard work has ensured that the major customers he does have are loyal to him. Thus, the businesses in the Grahamstown community generally try to stay loyal to business that they know provide good service or that they have a history with.

The Car Dealership, however has had a more tumultuous experience with loyal customers over the past few years. The mass buy-out of farms in the surrounding areas of Grahamstown has diminished their customer base considerably. The owner discusses this issue:

*If it wasn't for the schools and Rhodes University we'd be done. our main client base was the farmers, and what's happened now is to the North of Grahamstown there must be about 18 farmers that were clients of ours that were bought out by Game Farms, they've either moved on to other areas or they've stopped farming. You take Kwandwe, that's 30 000 hectares, an American just bought 30 000 hectares just the other side of Carlile bridge, he took out four of our clients, he buys one vehicle every three years.*

This excerpt shows the frustration of the Car Dealership owner with losing a large portion of his loyal client base. His focus has had to move to the schools and the University in the town. He has also expanded to Port Alfred, a neighbouring beach town, to access that market and expand his opportunities.

## **5.7. Local Economy**

The local economy of Grahamstown is unique in many aspects. Firstly, it is home to many public and private schools. The private schools, namely Kingswood, St Andrews and Diocesan School for Girls (DSG) have large boarding facilities which bring scholars from all over South Africa, and other countries, to Grahamstown. Moreover, Rhodes University is situated in Grahamstown which has several thousand students who assist the local businesses and boost their businesses through purchasing directly from them, or by stimulating retail and real estate purchase and development within the town. The scholars and university students, however are not in Grahamstown all year round, their presence in the town is dependent on their academic calendar.

That said there are also locals that inhabit the town on more of a consistent basis. There are also farmers in the area that do business in Grahamstown, but as mentioned above, the number of farmers has decreased over the past few years due to an increase in game farms in the surrounding area. The locals and farmers in the area have a huge sense of community which is evident through the discussion of Loyal Customers above, but also through other examples that have arisen from the data.

### 5.7.1. Community

A prime example of the sense of community that is evident in the local economy of Grahamstown is the case of the Car Dealership. After the death of the father who had founded the business, the business was in a desperate financial situation. The son had taken over and had borrowed money to re-build the business. However, after the news of the business' plight spread, the debtors began to pay their accounts. This was a rare phenomenon as Grahamstown, according to the financial manager of the business, is notorious for debtors that do not pay bills on time. Thus, the influx of payments was attributed to the company's financial trouble. The community pulled together for the business and did what they could to help, which was pay their accounts. The financial manager tells the story of the debtors within the community in 1999 when the son took over the business just after his father's death:

*And I think being a family that grew up here it was wonderful to see how the debtors actually started paying their accounts to help him out, because I think Grahamstown is one of the biggest default judgements in the country, or it was so at the time. So you would have to wait for your money for three to six months, sometimes even longer. So it was gratifying to see people actually pay their accounts, and the cash flow then helped to set it up.*

This shows that the people within the community value and empathise with family businesses; especially one's that they have grown up with. The debtors actually paid their accounts sooner to help a fellow-Grahamstownian out and to assist the family in re-building the business. This is a unique trait to Grahamstown as it shows that payments within the town can be emotively motivated.

Another example of how the customers within Grahamstown have empathised and related to the family businesses is that of the Photography businesses. The son stated:

*I think that in Grahamstown because we've been here so long and because the schools are so traditional, our customer is a traditional customer, you know if I go to Port Elizabeth when I eat our we'll probably go to a Spur because we know what they are going to serve, but in Grahamstown there are a lot of traditional stores.*

This shows that even towns close to Grahamstown, such as Port Elizabeth, do not have the same sense of tradition and appreciation for unique family stores. The Photography business therefore, has situated itself as a traditional family store to ensure that the customers can relate to them.

#### 5.7.2. “Out of Kilter”

Grahamstown, due to its heavy reliance on the university and schools, often feels out of time with the rest of the country. The Photography store, which is part of a franchise, does not benefit from nationwide advertisements because their Christmas specials never do as well as the rest of the country. The Photography business, like many businesses in Grahamstown, has to keep in time with the academic calendar and not the usual festive seasons. This makes it challenging to survive the months when the schools and university are not in town.

*You know, in Grahamstown its quite difficult to survive, its quite different compared to Jo'burg [Johannesburg] or any other place, in fact we complain when they have a nationwide advert for Christmas specials, you know, there is no one in Grahamstown over Christmas, so we want maybe during graduation or during festival, its out of kilter compared to the rest of the country, so I think for a business to survive in Grahamstown it has to be in tune with the academic schedule.*

This particular business has survived partly because they embrace the University functions in order to make money. For example, during the Rhodes University graduation the Photography business works night and day to ensure that the photographs are released no later than eight hours after each ceremony. This ensures that the parents are still in town to purchase photographs, and that the excitement is still high so that more photographs sell, the idea of “selling it while the cookie is hot”. This graduation period is the busiest period for this industry in Grahamstown annually, thus they identified the potential and made sure that they take full advantage of it.

### 5.8. Obstacles

There were categories that were seen as obstacles to entrepreneurship within the organisations, these were Previous Generations, and Employees. Although these categories do have positive aspects, there were parts of them that hindered the progress of the

businesses in question. Thus, the negative aspects of them will be discussed first, then they will be discussed in turn to elaborate on the positive sub-categories.

### 5.8.1. Previous Generations

The previous generations that were still involved in the business were not always supportive of changes made by their sons. There were some cases where the previous generation of ownership openly disagreed with the new generation. For example, in the Car Dealership, the late father disagreed with the son regarding the sale of used cars:

*My late father didn't believe in selling used cars...All his used cars he'd trade a car in and then sell it for what he traded it in for, so it was a big fight between us for about three years.*

This showed that it was not always easy for the two generations to work under one roof as there was bound to be disagreement on certain issues. With this case it was proven by the son when he ran the business that the sale of used cars was vital in the survival of his business in this uncertain economy. Not all people could afford new cars, thus it opened their market to accommodate those who were looking for a cheaper option. Furthermore, they could make more profit off used cars and it was a completely independent business so they could stock any make of car they wanted to.

Another example of a business that had resistance to change from the previous generation is the Dry Cleaning business. The father of the current owner was very opposed to the son buying new equipment for the business. The father viewed this as a waste of money because his old machines still worked. He did not understand the need to keep up with the times in terms of technology and machinery.

*What I do find...Is that I butt heads with my dad quite a bit in terms of that [wanting to buy new equipment] because when I came in he still had all of his old equipment, I mean, really labour intensive, I mean old. He found it very difficult to part with all of that, if that makes any sense to you, and I suppose here he saw his son coming in and buying all these electronic machines, so ja, he kept saying "keep it, keep it, let it run".*

This passage highlights the difficulty of changing over from one generation to the next, especially when the previous generation is part of your family and still closely involved in

the business. The son, however, stood firm about his decision to purchase new machinery and they have proved to save the business tremendously on overheads, such as electricity, water and labour.

The Photography business also had disagreements about certain issues. The son eloquently put it:

*Sometimes we disagree on how to handle the future, in some way I think my dad is trying to land the plane and I'm trying to take it off (laugh). But I think we get on well, so there's no great conflict.*

While his father is “landing” the plane or ending off his tenure in the business he has a different agenda than the son who is “taking off”. Thus, their view of the future comes from different perspectives, which do not always align. This can be an obstacle to progress in the business if the father tries to choose more conservative options that will not necessarily help the business adapt and change in the long run. Luckily, like the Photography business mentioned above, none of the businesses in the study have recorded any instances of great conflict in the business as a result of two generations being present in the business. The presence of two generations, or more, however can have negative effects on the business.

The presence of two leadership figures in the business can prove to be confusing for other staff members. One of the staff members in the business stated:

*now I have the father who is the final decision maker but the son is the final decision maker. So now I've got to speak to two people when in the past it was a little bit different [previous company she worked for], but I'm fine with that now, its normal to me.*

Although the employee has said that she had adapted to the change of having to speak to two bosses, it still is confusing. This must also be confusing for lower employees because they have two superiors to talk to. On a positive note, having to superiors present for small tasks could mean that there is greater chance of speaking to one and getting a problem on the floor-level sorted out quickly.

Not all businesses have difficulty working with two generations under one roof. The Refrigeration business did not seem to have problems with this issue in their business.

However, their business is slightly different because many of the employees, including the current owner, are often out of the shop due to call-outs and repairs. Thus, there is less overlap of the two generations in the everyday running of the business.

### 5.8.2. Employees

Another category that links to the issue of obstacles to the business is that of Employees. Nearly all of the businesses that were interviewed mentioned that they currently have, or have had in the past, problems with employees in their business. While some businesses have problems with HIV and AIDS amongst employees, others have problems with trustworthiness and reliability.

The Refrigeration business owner has highlighted the problem with HIV/AIDS in South Africa, especially in his business. He states that he has lost many good, well-trained employees who have died of AIDS in the past few years. They deal with this obstacle by trying to educate them and encourage safe sexual practices by having condoms available in the office if needed. They also have educational posters and pamphlets for their staff.

*I don't take on big tenders anymore, I used to have the staff, but now we've lost so many guys, we've had so many guys die of AIDS, like my good guys.. I think we've lost four guys to AIDS, we lost two maids. We try and educate them now, we've got condoms in the workshop, we've got books, we've got pictures on the walls... so you try and show them and educate them.*

The loss of trained, “good” staff is a huge obstacle for small businesses. Small businesses cannot afford to keep training new employees and look for employees that will stay with the business for a number of years.

Within the same business there is also the problem of finding trustworthy and reliable staff. The father of the current owner talks about the changes in staff over the years that he has seen in the business:

*One fantastic air conditioner installer died of AIDS, so that was a very big shock to the business. This other fellow, he just disappeared and I think he's just off the rails; he just went on a permanent binge. We had another fellow who would go off for a month and*

*then re-appear and now he's just permanently gone. I think it's this day and age that we live in with all the drugs and the booze. In my day there was no such thing as drugs.*

It is extremely difficult for business to find employees that are reliable and do not go on "binges" and disappear. The increase of diseases such as AIDS and drugs has had an impact on small businesses in Grahamstown. Some employees in other businesses are simply untrustworthy:

*He [founder] just wanted someone he could trust, because that was his problem the staff at the time were basically stealing and he couldn't see where or what was going on...It is unfortunate but my experience has shown that staff don't like to be accountable or responsible and over the years there has been theft, blatant theft.*

This excerpt comes from the financial manager and long-standing family friend of the founding family of the Car Dealership business. The theft and other negative staff aspects can distract the owners from implementing change and innovation within the business. Moreover, it can have huge negative effect on the financials of the business.

## **5.9. Previous Generations**

Previous generations within the organisations were not purely obstacles. Having the generations within the business even after the business has been taken over by the next generation is positive in the sense that there was overlap and time for the new generations to learn from the vast experience of their predecessors. Moreover, the parents themselves have shown interest and success in learning new technologies to help them function well within the modern organisation. This shows that having previous generations present in the business, even after the next generation has taken over, is not necessarily all negative.

### *5.9.1. Inter-generational learning*

An employee of the Refrigeration business pointed out the convenience and importance of learning from the previous generations. She said:

*It works very well, because I mean, what the father has learnt from his years of experience gets passed down and you actually learn from that to learn how to run the system better as well, it works very well.*

Thus, not only does the next generation learn from having the previous owners participate in the business, but other employees also benefit. The many years of experience that the parents have accumulated from founding the business to handing over to the next generation does not go to waste if there is sufficient overlap of old and new. The son that is currently running the business acknowledged: “You can’t replace 40 years of experience in the business”.

The Dry Cleaners had three generations working under one roof. The son, who is the current owner, his mother and father and his grandfather are all involved in the business. The son explained the cultural importance of families being involved in the same trade or business:

*The Hindu religion works along a caste system, we landed up with the laundry industry, so years and years and years ago, my great granddad he came from India originally, his dad was a laundry man in that industry and he took that trade and he brought it here..*

His wife elaborated:

*That’s basically what the caste system is, each caste system is actually a trade. In the old days his dad was pulled out of school to work in the laundry. It was seen that each trade was kept in tact and that caste was continued and that caste was a community and you were married within that. That’s what it used to be with the arranged marriages and stuff that would keep that. But obviously things evolve and everyone wants to follow their own path and that’s why it has fallen away.*

Within the Hindu religion, that the Dry Cleaning business’ founding family adheres to, the caste system was a way of passing down knowledge from generation to generation. That is why the children were forced into the business so that the father could teach them what they knew. This also ties into the idea of inter-generational learning. The caste system is a way of entrenched inter-generational learning. However, with changing times some Hindu parents are no longer restricting their children to the family trade, they are encouraging them to follow their own paths according to their abilities and passions. The father of the current owner, in fact, did not want his son to go into the family business. He provided a good

education for his son and encouraged him to follow a different path, which turned out to be corporate work in Johannesburg. When the son took an interest the father asked: –Are you sure you want to leave this corporate job with driving nice cars and free petrol?”. The issue of succession will be discussed further under the Succession category.

The inter-generational learning was, unfortunately, cut short for the Car Dealership business as the father died suddenly, which did not allow for a hand over period of the business from the father to son. The son had, however, worked for the business under his father for many years, so he would have benefited from the experiences that his father had.

### *5.9.2. Parents learning new skills*

In addition to the offspring learning from their parents, the parents have also showed an interest to learn new skills. Many of the parents were encouraged to learn new skills by their children so that they could benefit from the advances in technology.

The mother involved in the Refrigeration business was in charge of doing the accounts for the business. Her son encouraged her to use computer programmes instead of doing all the books for the business with pen and paper. At first she was reluctant, but once she was taught how to use computers she preferred that system. According to the son, the current owner of the business:

*Like we are on computers now and my mom used to do everything with books, even some stuff now she still does it on books. She didn't want to learn computers, but now that she's been taught now she loves it!*

Although some parents resist change and learning, eventually they have proven to be open to learning new skills.

The father from the Photography business also showed signs of willingness to learn new technologies:

*So computers and all of that were a little bit beyond me...You know, I battle because I never used computers at school, I can do elementary things, I can do emailing and certain things, but I can't do as much as I would like to do (laugh).*

The father, although he had never been exposed to computers at a young age, was willing to learn, and has learnt some basic computer skills. This shows that the parents within the businesses are not hindering the progress of the business by trying to hang onto old ways of running the business and doing certain tasks.

## **5.10. Employees**

The employees, as mentioned above, could be seen as an obstacle to business survival due to loss of employees through AIDS and untrustworthy employees. The category that encompasses employees, however, does have positive aspects to it. The category for Employees has been separated into Family employees and non-family employees that are “Part of the Family”.

### *5.10.1. Family*

The businesses that participated in this research often listed employees as being a problem in various ways, especially the untrustworthy nature of some employees and their lack of responsibility. The presence of family employees within the family businesses, to most people that were interviewed, was extremely positive because they were seen as completely trustworthy.

The mother within the Refrigeration business, who is still involved with the business today, said the following:

*We’ve had a lot of problems in the past with staff, so it’s always at the back of your head. And you’ve never got a fool proof system, so everything gets checked, so if the staff want something then one of the family sign it off...and I think this is why we are successful.*

The above statement shows that the business has had past difficulties with non-family staff members, however they use the family employees within the business as a way of checking on the other staff. The employees that are part of the founding family are trusted implicitly and therefore have the authority to sign off requests from other staff members. The Refrigeration business also made a point that all the family members communicate openly

about staff and the goings on within the business to ensure that they are all clued in about any staff issue.

The Car Dealership had a similar attitude towards family employees. They too had problems with staff in the past stealing from the business and being irresponsible. Thus, when the owner was asked about having his brother in the business, he replied: “It’s nice to have someone here that you can trust completely”. The idea of trust amongst family employees goes beyond an employment contract because the owner knows that his brother would never steal from the family business. He trusts his brother completely as an employee because of their personal relationship and history as family members. The owner knows that it is also in his brother’s interest for the business to succeed as their other family members, such as their mother, are supported by the business as well.

The financial manager reiterated this point: “So it is trust and loyalty, they can count on one another. There is nearly like a vested interest in the business”. This “vested interest” illustrates the family working together toward a common cause: to keep the business running. Thus family employees would not steal and lie to one another because it would harm their vested interest in the business. Although family are an extremely positive aspect in the business due to their trustworthiness, it can be difficult to work under the same roof. Most of the businesses that were interviewed showed tactics such as separation of tasks and delegation to ensure that family employees had jobs to perform and had clear job descriptions.

#### *5.10.2. Separation of Tasks*

Businesses that still had previous generations or other family members involved in the business showed signs of separating tasks to ensure that family members do not step on each other toes. The Refrigeration business, for example, shows signs of delineating jobs for the family members to ensure that each person knows clearly what they are supposed to do in the business:

*I run the shop, I run the inside of the shop: the ordering and the selling and I arrange the deliveries and help in the workshop. But my son runs the staff on the outside doing the outside work.*

The founder of the business, although he has handed over to his son, still plays a role in the business. He runs the shop while his son deals with staff matters and runs the call-outs for the

business. This shows that each family member plays an important role in the business that ensures that they are not redundant or that they do not overlap.

The Dry Cleaning business also discussed the roles that the previous generation still plays in the business. The current owner talked about the tasks that his mother performs in the business. When asked what role the parents play in the business the owner responded:

*Crucial. Especially with my mom, she's the organiser, I can run downstairs, she'll get a whole heap of 500 T-shirts and she'll get it out within two hours. She just knows how to treat the staff up there. From an organisational perspective I couldn't do what she does on top there [in the ironing section of the business].*

The mother of the current owner still plays a vital role in the business and performs a specific function. Thus, the family employees within the business performed important functions within the business and were not hired out of nepotism. They are still indispensable to the business. The family staff are valued within the business, however the business also have non-family employees that have stayed with the business for many years, some since the founding of the businesses.

### 5.10.3. "Part of the Family"

The non-family employees were generally treated in an informal, friendly manner within the businesses. This could be due to the fact that they are small businesses and communication in a passing and informal nature is acceptable and effective. The family did however go over and above the call of duty for their long term employees.

The family businesses showed loyalty not only to their family members within the business but also to some employees that have become part of the family. Most of the family businesses have employees that have been working for them for their entire working careers. These employees the business attempts to "look after" and ensure that they stay with the business. The sense of family extends throughout the business, not only to the family members.

*Generally I look after employees, you know we've had people working here for 20 years, 15 years - my manager in Port Alfred has been with me for 15 years, my financial manager has been here for 20 years, staff in the workshop have been here for*

*15 years, 18 years. So ja, when we find a good person which is every two out of five, those two you hold on to with all your might.*

The owner of the Car Dealership summed up the air of family and life long employees in the above passage. He goes on to talk about employees that step out of line but have been there for so many years.

*I can't fire him because he's been working here for 18 years, so I give him a chance and I give him a chance.*

There is almost a sense of paternalism in the small family businesses with the staff. The owners feel a sense of responsibility and loyalty to their long-term staff members. In the Refrigeration business there is an employee that has been with the business since the founding. He has stayed with the business across two generations:

*Paul [name changed for confidentiality reasons], who is in the business and he has been in my business, so he's been here for about 30 years, so that sort of staff one needs hey.*

The family businesses have become extensions of the family unit in which the owners attempt to take their loyal employees under their wings and go beyond the employment agreement to ensure that their employees are happy and that they retain them.

### **5.11. Succession**

The issue of succession will be discussed to give the businesses context and to show the dynamics of generations discussing and negotiating the hand-over process of the business. Interestingly none of the businesses that participated in the study had planned the succession process of the business. The Car Dealership business was slightly different from the others because the father passed away which precipitated the handing over of the business to the sons. The father decided through his will which son would be given majority share of the business; however there was no discussion of succession before the sudden passing of the father. Thus, the father had planned, through his will, who would succeed him, but the son could still have opted to sell the business instead of continue running it. He decided to continue with the business and buy his brother's shares so that he was the sole owner.

The other businesses, on the other hand, did not plan the succession at all. The sons taking over the business in the other three cases was completely left to chance. The Dry Cleaning business, for example, the son did not know that he was going to go into the family business until he moved to Grahamstown and became involved in the business. It was only after this initial exposure to the business that he decided that he would take over from his father when his father retired. When the son was questioned about the succession of the business he said:

*When I got stuck into the laundry I realised, because I was helping out in the laundry and doing bits here and there, I realised that I actually like this, there is an opportunity: the infrastructure was there, the base was there, a small customer base, and so I just carried on. ". But I love what I do now, I'm enjoying it. It's hard work, but I enjoy it.*

From the above extract it is evident that there was no planning that went into the succession of the business, it happened through chance. The son came and got involved in the business to help his father, and he ended up seeing potential and staying with the business as the next generation of ownership. The father was hesitant to let his son join the family business because he was working in a corporate position. But the son seemed to be happy to work for the family business.

The Refrigeration business succession was a similar situation. The son got involved just after completing his schooling. He started working for his father's business as a temporary situation and ended up staying with the company. His father spoke about how his son became involved in the business:

*My son went to a technical college, he took the trade of carpentry, he came out of school and he looked for a job in town and everybody wanted two months probation or three months probation. So I said "bugger that! You come to my workshop and I'll teach you". That wasn't easy! That wasn't easy, trying to teach your own child.*

The father took his son in to work for him as a second option because the other jobs in town were not ideal. Thus, the son became involved in the business and ended up taking over when the father left in 1999. Subsequently the mother and father came back to town and are now involved again with the business.

The Photography business also had a sense of coincidence and chance that the son came to work in the business. In this case the son worked for his father part-time while he was

studying at Rhodes University. With the rise of the digital age the son became increasingly involved in the family business in order to assist his father with the technical component of the business that his father was not very familiar with. The son then decided to enter the business full time and is now in the process of taking over from his father as the second generation of ownership. The son spoke about his involvement in the business:

*I just worked for my dad two days a week, I started off just helping out, and the was the very early stages of digital coming in and as it came in more and more, the more I got involved... I started as computers came in I started getting more and more involved.*

Thus, the son succeeding his father was also unplanned initially. He got involved and the fact that digital came in and he had computer knowledge made him extremely valuable to the business. He stayed on to help his father and eventually decided to work for the business full time. Another interesting aspect of succession planning within the participating business was the gender emphasis on future generations.

#### *5.11.1. Gender Emphasis*

Coincidentally, all of the owners, except one, that participated in the study had daughters. The fact that their children were female seemed to affect their future plans for the business. Most of the business said that they were not sure if the family business would continue because they had daughters. The quotes below illustrate the general view of the business that had daughters as prospective future heirs:

*Obviously my daughters aren't going to go into this business.*

*I think maybe if I had a son then it would be different, but I've got two daughters... It's not right for women, it's not a nice business to be in. People are demanding, they want things done now!*

*Unfortunately my son who owns the business has only got two daughters, and my other son has only got two daughters...*

It shows that the gender is important to the owners of the business. They either feel that their daughters will not be interested in the industry or they believe that it is not an appropriate business for females to be involved in.

The Dry Cleaning business did not worry about the gender of his children, but he rather spoke about the importance of creating a “legacy” for his children for their future:

*I hope it is going to be carried down to - well I've got two daughters but you never know - and that is that my forefathers had started something for the family to sustain itself. So from that aspect personally from my side, the way I feel now, I would like to create a legacy for my kids, and when I say legacy I mean: something that if they ever wanted to fall back on that there is a self-sufficient good running business for them, for my family should I not be around. And the point is I am sure my forefathers put that place up for generations to come, and I would like to carry on with that.*

The owner of the Dry Cleaners was the only person in the study that wanted to hand over to the next generation and felt positive about the future of the business. The Photography business had a son; however he was not positive about the survival of the business.

The current owner of the Photography shop spoke about the future of the business and was not certain that the business would survive far enough into the future for his son to take over:

*I'm not too sure how long it will last... I don't know, I don't know. I've got a ten year old son, if he wants to take over then that's great, but I'm not sure I'm going to keep going.*

His ambivalence about the future does not bode well for future generations of the business. The uncertainty of such a highly technical industry leaves the future of the business unsure.

## **5.12. Conclusion**

The businesses that participated showed common traits and processes that have been highlighted using categories and sub-categories. Some have been exceptions to the categories, while others have been prime examples; however there is not one business that stands out with having no signs of the categories mentioned above. The businesses told a unique story of an attempt to keep the businesses afloat and to expand where possible. They not only had environmental factors, such as changing technology to consider, but also had social challenges such as dealing with family employees within the business, which was in some cases a strength and others an obstacle. The findings will now be discussed in specific

relation to the research question at hand and will be linked to literature on the topic to assist in the answering of the research question.

## **6. Discussion**

### **6.1. Introduction**

The research aim was to explore the extent to which established family business showed signs of entrepreneurship within their businesses. The discussion of the findings above shows that there were categories that related directly to entrepreneurship that were evident within the businesses, namely Risk Taking, Creativity, Active Competition, Opportunity Grasping and Change. These categories will be discussed and related to previous literature in order to sufficiently answer the research question at hand.

### **6.2. Risk Taking**

All of the businesses that were interviewed showed signs of taking risks within their businesses. Some owners exercised caution, such as the Refrigeration Company that tried never to take loans and paid cash for bulk orders, however they still took a degree of risk in their business decisions.

According to the literature risk can be seen as a process associated with entrepreneurship within organisations. Miller (1983) and Kirby (2003) list risk as one of the defining characteristics of entrepreneurial ventures. While risk can be disputed as entrepreneurial because some theorists believe that all businesses take risks (Brockhaus, 1980), it has been included because family business theory claims that established family businesses can become adverse to risk and conservative in strategy and planning (Hall, Melin & Nordqvist, 2001; Miller, et al, 2007). This study showed that not all established family businesses become reluctant to take risks. In fact, the findings of this study show that all four participating businesses were willing to take risks in their businesses.

The Dry Cleaning business purchased extremely expensive new machinery using loan services; this was a huge financial risk. The Car Dealership took risks on a monthly basis to

purchase the stock for his business; this stock could amount to over five million rand, which he has to finance upfront. Moreover, the Car Dealership bought new property in Port Alfred and expanded in a time of economic uncertainty. The Photography business took a huge risk after the fire destroyed their business in 1999 to purchase the first digital photography printer in South Africa. This could have been a catastrophic business disaster as the machine was worth one million rand; however it ended up paying off when digital took the country by storm. The final business took risks when purchasing new premises and when furnishing apartment projects in town he would pay for the appliances upfront, which was a risk if the contractors did not pay him back.

Thus, the findings display risk in all of the businesses. Without this risk the businesses might not have survived this far. They are not always aware of the risks that they are taking, the mother of the one owner pointed out a risk that the son was not conscious of. Thus, the owners are willing to take risks and conduct seemingly risky behaviour within their businesses; this can be seen as a sign of entrepreneurship within the business.

### **6.3. Creativity**

The creativity category encompasses aspects of innovation that businesses participated in. Innovation was defined as “a firm’s tendency to engage in and support new ideas, novelty, experimentation, and creative process that may result in new products, services, or technological processes” (Lumpkin & Dess, 1996, p.142). Innovation was seen as an extremely important aspect of entrepreneurship with many theorists incorporating innovation into their definitions of entrepreneurship (Carland, et al, 1984; Kirby, 2003; Lumpkin & Dess, 1996; Miller, 1983; Rwigema, 2004).

In the findings of this research there was one good example of innovation within the business. The Photography business invented new computer software that allowed the scholars, some of their main customers, to order photographs via email. The software then automatically printed the photographs in the shop once the email had been received. This was a novel way of completing the task of ordering photographs and freed many staff from dealing with customers directly. The photographs were charged to their school accounts, which meant that they would not lose money through hoaxes or mistakes. They saved money by not having to print out index photograph sheets for the schools to view as it was all done digitally through

the computer programme. This showed experimentation and creativity that produced a new technical process and a new way of conducting business.

There was one business, on the other hand, that explicitly stated that he could not innovate within his industry because it was so straight forward. The Laundry industry consists of three main processes: sorting, washing and ironing. The owners of the business when asked about innovation said: ~~“there is no different way to iron a shirt”~~. This shows that innovation for some industries is extremely difficult. For the Dry Cleaning business the only creativity that there is room for is the different detergents and soaps that are used. This particular Dry Cleaning business uses multiple soaps for different clients, which shows aspects of creativity, however, it does not change the process of conducting business.

#### **6.4. Active Competition**

Lumpkin and Dess (1996) list ~~“aggressive competition”~~ as one of the components of entrepreneurship (p.139). This aggressive competition refers to businesses actively attempting to outdo their competition. According to Mintzberg (1983) environments that have a high level of competition are known as dynamic environments. Grahamstown, although it is a small town, has large amounts of competition within the business sector. The businesses that participated in this study showed signs of competition and adaptation to their dynamic environments.

The business that showed the highest levels of active competition were the Dry Cleaners. The owner of the dry cleaning business stated that competition within Grahamstown in the laundry industry is rife. When he entered the family business the clients were virtually non-existent because his father was planning on retiring and closing the business. Thus, the son had to re-build the client base. He took a very aggressive approach to getting clientele for the business. He arranged meetings with the clients that his father used to have, but were then taken over by competitors, and he actively marketed himself and attempted to get the customers to sign contracts with his business. After receiving the green light from one customer for a reasonably sized contract, the owner worked extremely hard to outdo his competitors on service levels. Today the Dry Cleaning business has three major contracts. Thus shows that the business managed to take business from their competitors and through superior service and reasonable pricing, he managed to sign other contracts. This shows the

–aggressive competition” levels that Lumpkin and Dess (1996, p. 139) were referring to when defining the entrepreneurship process.

The other businesses showed signs of active competition through ensuring their loyal customers were satisfied. The Refrigeration company and the Photography business both discussed loyal customers in Grahamstown and emphasised the important role that loyal customers play in the survival of their businesses. The Refrigeration business had customers that will only be served by the owner. This can prove difficult if the owner is busy, but he makes an effort to please his loyal customers and ensure that they do not move their business to a competing business.

The Refrigeration business has had some customers since the beginning of the business about 30 years ago. The Photography business relies heavily on the private schools within Grahamstown. They say that some of the private schools have used them as their sole photographers for functions for 22 years. Therefore the company goes out of their way to ensure that their service is superior to their competitors and that the private schools are happy. The computer programme that they invented was also invented to keep the private school customers happy and to ensure that they do not move their business to the rival photography company. Thus the Photography business used innovation as a tool in competing with their rivals in town.

The above discussion of Active Competition within local family businesses show that according to Lumpkin & Dess’s (1996) description of entrepreneurial processes, the businesses do engage in entrepreneurial processes.

## **6. 5. Opportunity Grasping**

As part of the entrepreneurship definition for this study there was emphasis on –seizing opportunities”. This can be seen as an important aspect of entrepreneurship wherein owners manage to identify and grasp opportunities within their environments.

Most of the businesses in question could identify and seize opportunities. For example, the Car Dealership saw an opportunity to purchase inexpensive land in Port Alfred and build a second dealership. This also illustrates growth and expansion within the business. The owner of the car dealership is expanding his business to a neighbouring town, and he now employs a total of 32 employees across the two branches. Growth is seen by many theorists as an

important aspect of entrepreneurship (Carland, et al, 1984; Rwigema, 2004). This is an illustration of entrepreneurship because it encompasses not only opportunity grasping, but also growth. Moreover, in terms of Small Medium and Micro Enterprises (SMME) it shows that the business is creating more jobs for people in the local area. The Car Dealership is also involved in two year training programmes of mechanics which show that small businesses contribute not only to job creation but also to training and development of employees within South Africa. This is in line with the findings of Ntsika (2002).

The Refrigeration business also showed the ability to identify and seize opportunities. The owner of the business bought property that was in a more central location for the business, he also saw potential for expansion of the sales portion of the business with a larger front of shop space in the new premises.

## **6.6. Change**

According to some of the literature on family businesses, especially those that are established, there is a tendency for family businesses to continue in the previous generations footsteps and not change according to the changing environment (Hall, Melin & Nordqvist, 2001; Miller, et al, 2007). The findings of this study have proven this assumption wrong. All of the businesses have demonstrated change from the previous generation to their current ownership. Although most businesses still perform the same function there have been changes in all the businesses to some degree.

The Dry Cleaners have bought large quantities of new equipment, despite resistance from the previous generation, to ensure that the business keeps up with the technological advancements.

The Car Dealership has changed his business drastically from his father's era by having a dual-business with both new and used cars. This ensured that people that could not afford new cars, especially in the uncertain economy of the past few years, can also come to him to purchase new cars. This had opened up his market and changed his customer base to include lower-income brackets.

The Refrigeration business has changed to incorporate more new appliance sales. The current owner has encouraged a trade-in system where customers can buy new appliances from them

for no charge on the call-out fee it took to assess their old, unfixable appliances. This encouraged people to replace their unfixable appliances at the same shop and increased the new appliance sales.

The Photography shop has been subject to large changes through the advancement of the digital era. The environment that they are in, due to their high levels of technology is complex. They need to constantly re-assess their machinery and their techniques of doing things within their business to ensure that they are not left behind the current technology. The father of the business was also involved in the digital process, thus displaying his ability to adapt and learn within the organisation.

### **6.7. Learning and Adaptation**

The literature highlighted the importance of learning and adapting to environments when one is an entrepreneur. Often entrepreneurs function within uncertain environments and need to be able to change and adapt according to stimuli from the environment (Daft, 2005; Haeckel, 1999). Learning can be defined as the “change in behaviour or performance that occurs as a result of experience” (Daft, 2005, p.599). The businesses in this study have shown many examples of learning, both the previous generations learning new technology and the new generations learning from the experience of their parents.

There are two main types of learning, experiential learning and vicarious learning (Holcomb, et al, 2009). Experiential learning is when people behave in a certain way and learn through the outcome of that action, in other words learning through either positive or negative experiences (Holcomb, et al, 2009). In the study, the owners learn on-the-job through experiences, the previous generations also learn through experiential learning how to use new technology. The second form of learning is vicarious learning; this characterised by people learning through observation of others or through other’s experiences (Holcomb, et al, 2009).

There is also evidence of an entrepreneurial form of learning, or heuristics, where people learn within uncertain circumstances where not all the sense data is present (Holcomb, et al, 2009). This was evident in some of the participants talking about “going with the flow” or “sucking their thumbs”. In other words the participants have learnt how to make decisions by having some of the data but not all. Thus there is an element of guess work or some may see

it as intuition. The owners often do things without being able to explain exactly how they came to that decision.

These processes show that the owners make decisions in uncertain circumstances and still manage to adapt in a way that enables their business to survive. This can be seen as an entrepreneurial process of learning and decision making.

## **7. Reflexivity**

The findings and discussion above are rooted firmly in the data that was collected. Although this is true, the data was not discovered from the data in a passive fashion but was analysed and interpreted through the personal lens of the researcher.

The researcher has taken notes throughout the research process to ensure that she was aware of the possible biases that she may have towards the data. The categories and examples that were chosen from the data were chosen by the researcher after much deliberation and analysis as categories that best describe the data and best answer the research question.

## **8. Limitations of the study**

This research was designed as an exploratory study to determine whether or not there were entrepreneurial processes present in established family businesses. As such, there are certain aspects of the research that could be improved upon for researchers wanting to conduct similar studies in the future.

This study was conducted using three white South African families and one Indian family. This may influence the results as there is not cultural variety of participants. However, the qualitative nature of this study does not call for external validity, thus there is no need to have a representative sample. The experience of the participants is context-specific and cannot be generalised to other populations. However, a broader sample of differing cultures and ethnic background might offer a more holistic view on the phenomena at hand.

The research was also conducted on successful businesses within Grahamstown, thus the results may reflect that. The businesses may have survived because they are involved in entrepreneurial processes. Thus, a study which includes family businesses that are struggling or that have closed down would be interesting to see if the results are similar.

## **9. Future Research**

This research has highlighted many topics that may be beneficial for the field to study in the future. Directly related to this study, a follow-on quantitative study could be conducted across a number of small towns to establish whether or not these findings are generalisable. Also, statistical analyses of these issues would help generate much needed statistics for South African, and especially Eastern Cape research.

The following topics could be of interest for future research: entrepreneurial learning and decision making in small businesses, training and development levels in small businesses in South Africa, sense of community in buying and business patterns in small towns, effects of HIV/AIDS on skills shortages in small businesses, and cultural influences in family businesses in South Africa.

- *Entrepreneurial learning and decision making in small businesses*

This research illustrated the uncertain environments and incomplete information that is used to process decisions and learning in entrepreneurial and small business contexts. This would be an interesting topic to study in order to establish the process the owners take in making difficult decisions in their businesses.

- *Training and development in small businesses*

According to literature from Ntsika (2002) SMME have some of the highest levels of on-the-job training and development in organisations in South Africa. A quantitative study measuring the extent to which small business offer training and development to their employees could be beneficial to national statistics on SMME.

- *Sense of community and its effect on buying patterns in small towns*

The loyalty that customers have shown towards the family businesses in the study means that there might be a relationship between community and buying patterns in small businesses. This could be a study that benefited SMME in small towns because they could market themselves in ways that would appeal to the loyalty of the community.

- *Effects of HIV/AIDS on skills levels in small businesses*

This research showed that AIDS has affected small businesses by the skilled and well trained technicians dying. Thus, a study to show the impact of HIV/AIDS on small businesses and

their educational strategies might be interesting. Moreover, an action research study that helped them develop more effective strategies for education within small businesses might have a huge impact on the business.

- *Cultural influences in family businesses in South Africa*

A study on a variety of family businesses from different cultural backgrounds might give insight into the influence of their cultures on the business. This might affect things such as future planning, succession planning and openness to change.

## **10. Conclusion**

Family businesses, through the literature search, were proven to be unique and important businesses within the South African context. Moreover, Small Medium and Micro Enterprises (SMME) show great promise in job creation and skills development in South Africa. Thus, this topic was pertinent in today's society due to the escalating unemployment rates. Small family businesses, although they are overlooked by most researchers, have the potential to contribute positively to the South African employment rates and to encourage people to learn through work experience. Another pressing issue that was addressed was business creation and established business survival.

Entrepreneurship is an important topic to broach in South Africa because many people create their own job opportunities through entrepreneurial activity. This research focussed on what happened to businesses after they were founded and once they were established. Did established businesses incorporate entrepreneurial processes? Moreover, did family businesses, which are considered conservative and reluctant to change after the initial start-up, incorporate entrepreneurial processes, such as risk, proactive behaviour and innovation?

Through the data collection, analysis and interpretation phases it became evident that signs of entrepreneurial processes were present in established family businesses in Grahamstown. As an exploratory study it showed that established family businesses do, in fact, change over time according to technological advances, they do innovate and they are open to taking risks within the business. Thus, there was indeed evidence of entrepreneurship within these businesses.

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## **Appendix A: Interview Schedules**

### 1. Interview Schedule for Owner

#### Founding:

Tell me about the founding of the business. How was the business started?

Who was the business founded by?

How were they related to you?

When was the business founded/how long has the business been running for?

What kind of products/services did the business conduct in the beginning?

Was the initial business on the same premises that it is on now? (if not, then where was it?/why did it move?)

#### Purpose of the business/type of business

Change:

- What is your primary purpose of the business now?
- Has the function of the business changed since it was started? (If yes, how and why?)
- How many employees does your business employ now? (is this a lot more than it used to employ when it was founded)
- Do you think your type of business needs to change? Can it survive by offering the same services in the future?

Industry

- Do other businesses in your industry change?

Competitors:

- What/who are your main competitors in town?
- How do you counter act the competition? (Do you try to come up with new services/products?)
- How would you describe business in Grahamstown?
- Do you think the town allows for room for expansion/innovation?

#### Leadership

- What is your leadership style?
- When there is a problem or query, do employees come to you?

Communication:

- How do you tell employees to do certain tasks (verbally, in writing informally)?
- Do you have regular meetings?
- Do employees communicate directly to you?

### Innovation

Has the business changed since you have started running it? If so, how?

Do you/can you develop new services or products? (if yes, what and how? )

Do you try to tap into new markets? How?

Do you conduct any market research?

Do you, as an owner, try to encourage innovation (the development of new services or products)?

Does your business mainly follow tried and tested procedures? (if yes, why?) Do you think family business have anything to do with this?

Do you tolerate or encourage employees that do things differently? (if yes, how?)

Do employees feel they can come to you with new ideas about the business? Have they ever come to you with new ideas?

### Product-market innovation

Do you follow changes in the market? If yes, how? If no, how?

Are you aware of what your customers think about your services/products?

Are your customer's opinions important to you? Does this inform any of your decisions?

### Proactiveness

Do you plan ahead?

Do you try to anticipate what the competition is going to do within the market?

### Risk-Taking

How do you feel about taking risks within the business?

Have you ever taken a considerable risk in your business? (financial loan, investment, etc) if yes, what?

Does the family promote or discourage risks?

### Organisational Culture/autonomy

Would you say that you promote teamwork? How?

How do you make big decisions? Do you consult? Make on your own?

Would you rather promote a team succeeding or individual success? Why?

Do you look at your competitors and learn from them? Or use their innovations?

### Communication

How would you describe communication in the business?

Do you have regular meetings/email/letter communication?

Is communication formal (meetings, formal correspondence) or more informal (slang language, talking in the passages)?

Do your employees have the ability to make decisions? What kind of decisions can they make?

How would you evaluate your businesses success?

### Family in business

Do you employ any family members? (if yes, who?)

Is it full-time or more on a flexible basis?

Why did you employ family as opposed to a non-family member?

How is it working with a family member? Does the fact that they are related to you affect the way that you treat them in the workplace?

### Family culture

How would you describe your family values?

What do you hold as important within your family?

What values do you try to instil in your family?

Family and business?

How do your family values come across in the business?

Would you classify your business as a family business? Why?

Would you like the business to be passed on to a family member in the next generation? Why?

Please discuss any positive and/or negative aspects you can think of relating to having a family business.

What does the business mean to you and your family?

If this business was not founded by a family member, would you act differently in running it?

Future prospects

Do you have any long term goals for the business? What are they?

What do you think the biggest future challenge is going to be for your business?

**Interview schedule for family employee/previous owner**

**Founding**

Tell me about the founding of the business.

Who was the business founded by?

How were they related to you?

When was the business founded/how long has the business been running for?

What kind of products/services did the business conduct in the beginning?

Was the initial business on the same premises that it is on now? (if not, then where was it?/why did it move?)

**Purpose of the business/type of business**

**Change:**

- What is the primary purpose of the business now?
- Has the function of the business changed since it was started? (If yes, how and why?)

- Do you think your type of business needs to change?
- Can it survive by offering the same services in the future?

**Industry:**

- Do other businesses in your industry change?
- How would you describe business in Grahamstown?
- Do you think the town allows for room for expansion/innovation?

**Competition:**

- What/who are your main competitors in town?
- How do you counter act the competition? (Do you try to come up with new services/products?)
- Do you look at your competitors and learn from them? Or use their innovations?

**Leadership**

What is your owner's/son's/daughter's leadership style?

**Innovation**

- Do you create new products or new services within the business? (if yes, what and how? )
- Does the business mainly follow tried and tested procedures?
- Does the owner try to encourage innovation (the development of new services or products)?
- Does the owner tolerate or encourage employees that do things differently? (if yes, how?)

**Market Changes:**

- Do you follow changes in the market? If yes, how? If no, how?
- Are you aware of what your customers think about your services/products?
- Are your customer's opinions important to the business?

**Organisational Culture**

Would you say teamwork is important in the workplace? explain

Does the owner consult you or any other employees about decisions?

Does the owner promote a team succeeding or individual success? Why?

Have you ever approached the owner with a new idea?

**Communication:**

- How would you describe communication in the business?
- Do you have regular meetings/email/letter communication?
- Is communication formal (meetings, formal correspondence) or more informal (slang language, talking in the passages)?

Do you as employees have the ability to make decisions? What kind of decisions can you make?

**Family in business**

How did you start working for the family business?

Why did you decide to work here as opposed to another business?

Have you worked at any other businesses previously? If yes, was there a difference in how you were treated?

Do you feel that you are treated differently because you are related to the owner?

**Family culture**

How would you describe your family's values?

What do you hold as important within your family?

What values do you try to instil in your family?

**Family and business?**

Would you classify the business as a family business? Why?

Would you like the business to be passed on to a family member in the next generation? Why?

Please discuss any positive and/or negative aspects you can think of relating to having a family business.

**Future prospects**

Does the owner have any long term goals for the business? If yes, do you know what they are?

Does the owner communicate any future vision to the rest of the organisation?

What do you think the biggest future challenge is going to be for the business?

### **3. Interview schedule for non- family employee**

- **Leadership**

How would you describe your boss' leadership style?

How are you told to do things? (casual, memo, email, etc)

Are there ever any clashes in leaders?

- **Innovation**

Do you create new products or new services within the business? (if yes, what and how? )

Does the owner try to encourage innovation (the development of new services or products)?

Does the owner tolerate or encourage employees that do things differently? (if yes, how?)

Does the business mainly follow tried and tested procedures?

- **Culture**

Would you say teamwork is important in the workplace? explain

Does the owner consult you or any other employees about decisions?

Have you ever approached the owner with a new idea?

Are your customer's opinions important to the business?

- **Communication:**

How would you describe communication in the business?

Do you have regular meetings/email/letter communication?

Is communication formal (meetings, formal correspondence) or more informal (slang language, talking in the passages)?

Do you as employees have the ability to make decisions? What kind of decisions can you make?

- **Family in business**

Have you ever worked for a non-family business?

How do you feel about family working within the business?

Do you feel that you get treated any differently to the family employee/s?

- **Family culture**

How would you describe the owning-family values?

Do those values come through in the business?

- **Future prospects**

Does the owner have any long term goals for the business? If yes, do you know what they are?

Does the owner communicate any future vision to the rest of the organisation?

What do you think the biggest future challenge is going to be for the business?

## Appendix B: Tape Recording Consent Form

Rhodes University

-

Department of Psychology

**USE OF TAPE RECORDINGS FOR RESEARCH  
PURPOSES**

**PERMISSION AND RELEASE FORM**

<i>Participant name &amp; contacts (address, phone etc)</i>	
<i>Name of researcher &amp; level of research (Honours/Masters/PhD)</i>	
<i>Brief title of project</i>	
<i>Supervisor</i>	

**Declaration**

*(Please initial/tick blocks next to the relevant statements)*

1. <i>The nature of the research and the nature of my participation have been explained to me</i>	verbally	
	in writing	
2. <i>I agree to be interviewed and to allow tape-recordings to be made of the interviews</i>	audiotape	
	videotape	
3. <i>I agree to take part in and to allow tape-recordings to be made.</i>	audiotape	
	videotape	
4. <i>The tape recordings may be transcribed</i>	without conditions	
	only by the researcher	
	by one or more nominated third parties:	
5.1 <i>I have been informed by the researcher that the tape recordings will be erased once the study is complete and the report has been written.</i>		
5.2 <i>OR I give permission for the tape recordings to be retained after the study and for them to be utilised for the following purposes and under the following conditions:</i>		

**Signatures**

<i>Signature of participant</i>		<i>Date</i>
<i>Witnessed by researcher</i>		

## **Appendix C: Informed Consent Form**

RHODES UNIVERSITY  
DEPARTMENT OF PSYCHOLOGY

### **AGREEMENT BETWEEN STUDENT RESEARCHER AND RESEARCH PARTICIPANT**

Updated 22 May 2011

I (participant's name)..... agree to participate in the research project of *Talia Lancaster* on exploring entrepreneurship in established family businesses in South Africa.

I understand that:

1. The researcher is a student conducting the research as a requirement for a Master of Arts degree at Rhodes University. The researcher may be contacted on 073-424-5445 or [g07L1221@campus.ru.ac.za](mailto:g07L1221@campus.ru.ac.za). The research project has been approved by the Research Projects and Ethics Review Committee, and is under the supervision of Mr. Mike Routledge and Bernadette King in the Psychology Department at Rhodes University, who may be contacted on 046 603-8504 and 046 603 8820 or [m.routledge@ru.ac.za](mailto:m.routledge@ru.ac.za) and [b.king@ru.ac.za](mailto:b.king@ru.ac.za).
2. The researcher is interested in the presence and/or extent of entrepreneurial activities in established family businesses.
3. My participation will involve an individual interview.
4. I will be asked to answer questions of a business and possibly personal nature but I can choose not to answer any questions about aspects of my life which I am not willing to disclose.
5. I am invited to voice to the researcher any concerns I have about my participation in the study, or consequences I may experience as a result of my participation, and to have these addressed to my satisfaction.
6. I am free to withdraw from the study at any time - however I commit myself to full participation unless some unusual circumstances occur or I have concerns about my participation which I did not originally anticipate.
7. The report on the project may contain information about my personal experiences, attitudes and behaviours, but that the report will be designed in such a way that it will not be possible for me to be identified by the general reader.

Signed on (Date):.....

Participant: \_\_\_\_\_ Researcher: \_\_\_\_\_